

FINANCIAL STATEMENTS
CITY OF HOUGHTON, MICHIGAN
June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Houghton	County Houghton
Fiscal Year End June 30, 2006	Opinion Date December 21, 2006	Date Audit Report Submitted to State December 26, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

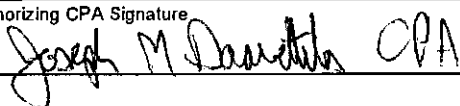
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Joseph M. Daavettila, P.C., CPA		Telephone Number (906) 482-3830		
Street Address 417 Shelden Avenue		City Houghton	State MI	Zip 49931
Authorizing CPA Signature 		Printed Name JOSEPH M. DAAVETILA		License Number 15628

CONTENTS

	Page
Independent Auditor's Report	5
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	7
Management's Discussion and Analysis	8
 <u>Basic Financial Statements</u>	
Government-wide Financial Statements:	
Statement of Net Assets	15
Statement of Activities	16
Fund Financial Statements:	
Government Funds:	
Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	18
Statement of Revenues, Expenditures, and Changes in Fund Balance	19
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	20
Proprietary Funds:	
Statement of Net Assets	21
Statement of Revenues, Expenses and Changes in Net Assets	23
Statement of Cash Flows	24
Fiduciary Fund Types:	
Statement of Net Assets	26
Statement of Changes in Net Assets	27
Discretely Presented Component Units:	
Statement of Net Assets	28
Statement of Activities	29
 Notes to Financial Statements	 30
 <u>Required Supplementary Information</u>	
General Fund - Budgetary Comparison Schedule	58
Major Street and Trunkline Maintenance Fund - Budgetary Comparison Schedule	59
Local Street Fund - Budgetary Comparison Schedule	60
Revolving Fund - Budgetary Comparison Schedule	61
Note to Required Supplementary Information - Budgetary Information	62
 <u>Additional Information</u>	
<u>Financial Statements of Individual Funds</u>	
Governmental Funds:	
General Fund:	
Balance Sheets	65
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	66
Special Revenue Funds:	
Combining Balance Sheets	67
Combining Statements of Revenues, Expenditures, and Changes in Fund Balance	68
Major Street and Trunkline Maintenance Fund:	
Balance Sheets	69
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	70
Local Street Fund:	
Balance Sheets	71
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	72
Revolving Fund:	
Balance Sheets	73
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	74

CONTENTS (CONTINUED)

Capital Projects Fund - Public Improvement Fund:	
Balance Sheets	75
Analyses of Changes in Fund Balance	76
Debt Service Fund -	
Combining Balance Sheets	77
Combining Statements of Revenues, Expenditures, and Fund Equity	78
Proprietary Fund Types:	
Water Supply Fund:	
Balance Sheets	79
Statements of Revenues and Expenses	80
Analyses of Changes in Fund Equity	81
Statements of Cash Flows	82
Sewage Disposal System Fund:	
Balance Sheets	83
Statements of Revenues and Expenses	84
Analyses of Changes in Fund Equity	85
Statements of Cash Flows	86
Parking System Fund:	
Balance Sheets	87
Statements of Revenues and Expenses	88
Analyses of Changes in Fund Equity	89
Statements of Cash Flows	90
Transit Fund:	
Balance Sheets	91
Statements of Revenues and Expenses	92
Analyses of Changes in Fund Equity	93
Statements of Cash Flows	94
Equipment Fund:	
Balance Sheets	95
Statements of Revenues and Expenses	96
Analyses of Changes in Fund Equity	97
Statements of Cash Flows	98
Fiduciary Fund Types:	
Employee Retirement Fund:	
Balance Sheets	99
Statements of Revenues and Expenses	100
Statements of Changes in Fund Balance	101
Employee Benefit Fund:	
Balance Sheets	102
Statements of Revenues and Expenses	103
Analyses of Changes in Retained Earnings	104
Statements of Cash Flows	105
Agency Fund - Tax Collection Fund	
Statements of Changes in Assets and Liabilities	106

Groups of Accounts

General Fixed Assets Group of Accounts -	
Statements of General Fixed Assets	108
General Long-Term Debt Group of Accounts -	
Statements of General Long-Term Debt	109

CONTENTS (CONTINUED)

Discretely Presented Component Units

Downtown Development Authority:	
Combined Balance Sheets	111
Combined Statements of Revenues, Expenditures, and Changes in Fund Balance	112
General Fund:	
Balance Sheets	113
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	114
Debt Service Funds:	
Combining Balance Sheets	115
Combining Statements of Revenues, Expenditures, and Fund Equity	116
Statements of General Long-Term Debt	117
Tax Increment Finance Authority:	
Combined Balance Sheets	118
Combined Statements of Revenues, Expenditures, and Changes in Fund Balance	119
General Fund:	
Balance Sheets	120
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	121
Debt Service Funds:	
Combining Balance Sheets	122
Combining Statements of Revenues, Expenditures, and Fund Equity	123
Statements of General Long-Term Debt	124
Brownfield Redevelopment Authority:	
Combined Balance Sheets	125
General Fund:	
Balance Sheets	126
Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	127
Statements of General Long-Term Debt	128

Other Financial Information

General Fund -	
Statements of Revenues, Expenditures, and Fund Balance	130
Major Street and Trunkline Maintenance Fund -	
Schedules of Expenditures and Reimbursements for State Trunkline Maintenance	132
Transit Fund:	
Schedule of Operating Revenues	133
Schedule of Operating Expenses	134
Schedule of Non-Operating Revenues and Expenses	135
Mileage Schedule	136
Schedule of Net Eligible Cost Computations of General Operations	137
Management Letter	138

JOSEPH M. DAAVETILA, P.C.
Certified Public Accountant
417 Shelden Avenue, P.O. Box 488
Houghton, Michigan 49931

December 21, 2006

City Council
City of Houghton
Michigan

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each fund of the CITY OF HOUGHTON, MICHIGAN as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

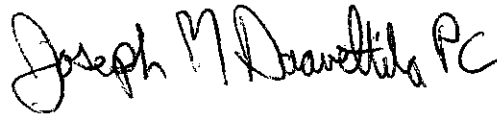
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each fund of the CITY OF HOUGHTON, MICHIGAN as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 21, 2006 on our consideration of the CITY OF HOUGHTON, MICHIGAN'S internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 8 through 14 and 58 through 62 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF HOUGHTON, MICHIGAN'S basic financial

statements. The introductory section, individual fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink, reading "Joseph M. Dravetich PC". The signature is written in a cursive, flowing style.

Certified Public Accountant

JOSEPH M. DAAVETILA, P.C.
Certified Public Accountant
417 Shelden Avenue, P.O. Box 488
Houghton, Michigan 49931

December 21, 2006

City Council
City of Houghton
Michigan

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the CITY OF HOUGHTON, MICHIGAN as of and for the year ended June 30, 2006, and have issued our report thereon dated December 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CITY OF HOUGHTON, MICHIGAN'S financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the CITY OF HOUGHTON, MICHIGAN in a separate letter dated December 21, 2006.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CITY OF HOUGHTON, MICHIGAN'S internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the CITY OF HOUGHTON, MICHIGAN in a separate letter dated December 21, 2006.

This report is intended for the information and the use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountant

CITY OF HOUGHTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2006
(Unaudited)

Our discussion and analysis of the City of Houghton's financial performance provides an overview of the City's financial activities for the year ended June 30, 2006. Please read this report in conjunction with the City's financial statements which begin on Page 15.

USING THIS ANNUAL REPORT

This Annual Report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities (on pages 17-18) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on Page 19. For governmental activities these statements tell how these activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operation in more detail than the government-wide statements by providing information about the City's individual funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on Page 12. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about the activities in a way that helps answer these questions. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non financial factors, however, such as changes in the City's property tax base and the condition of the City's roads to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

1. Governmental Activities - Most of the City's basic services are reported here including police, fire, general administration, streets, parks and neighborhoods. Sales taxes, franchise fees, fines, state and federal grants finance most of these activities.
2. Business-type Activities - The City charges a fee to customers to help cover all or most of the cost of certain services provided. The City's water, sewer, transit and parking systems are reported here.
3. Component Units - The City includes three separate legal entities in its report - The Downtown Development Authority, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on Page 12. The Fund Financial Statements begin on Page 17 and provide detailed information about the most significant funds, not the City as a whole. Some Funds are required to be established by State law and by bond covenants; however, the City Council establishes many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other monies. The City's two kinds of funds, government and proprietary, use different accounting approaches:

1. **Governmental Funds** - Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at the end of the year which are available for spending. These funds are reported using the accounting method called modified accrual accounting which measures cash and other financial assets that can be easily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following the fund financial statements.
2. **Proprietary Funds** - When the City charges customers for the service it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS TRUSTEE

The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that - because of a trust arrangement - can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Net Assets and Changes in Net Assets on Pages 26 and 27. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE CITY AS A WHOLE

For the year ending June 30, 2006 the net assets changed as follows:

Table 1
City of Houghton's Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	2006	2005	2006	2005
Current and other assets	\$ 2,933,965	\$2,337,318	\$ 758,208	\$ 801,559
Capital assets	<u>9,070,910</u>	<u>6,973,978</u>	<u>11,459,307</u>	<u>11,731,890</u>
Total assets	<u>\$12,004,875</u>	<u>\$9,311,296</u>	<u>\$12,217,515</u>	<u>\$12,533,449</u>
Long-term liabilities	\$ 3,366,005	\$ 926,916	\$ 4,896,000	\$ 5,002,000
Other liabilities	<u>521,291</u>	<u>420,205</u>	<u>270,312</u>	<u>277,643</u>
Total liabilities	<u>\$ 3,887,296</u>	<u>\$1,347,121</u>	<u>\$ 5,166,312</u>	<u>\$ 5,279,643</u>
Net assets:				
Invested in capital assets, net of related debt	\$ 5,783,816	\$5,788,114	\$ 6,457,307	\$ 6,636,890
Restricted	-	-	290,295	286,811
Unrestricted	<u>2,333,763</u>	<u>2,176,061</u>	<u>303,601</u>	<u>330,105</u>
Total net assets	<u>\$ 8,117,579</u>	<u>\$7,964,175</u>	<u>\$ 7,051,203</u>	<u>\$ 7,253,806</u>

Governmental Activities

This will be the second year where we can make a comparison of prior years using the accrual basis of accounting under GASB 34. To aid in the understanding of the Statement of Activities some additional explanation is given. Particular interest is the format that is significantly different than a typical statement of revenues and expenses and changes in fund balance. You will notice that expenses are listed in the first column with revenues from a particular program reported to the right. Result is a Net (Expense) Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions of the City's taxpayers. It also identifies how much each function draws from the general revenues, or if it is self-financing, through fees and grants.

Total Primary Government	
<u>2006</u>	<u>2005</u>
\$ 3,692,173	\$ 3,138,877
<u>20,530,217</u>	<u>18,705,868</u>
<u>\$24,222,390</u>	<u>\$21,844,745</u>
\$ 8,262,005	\$ 5,928,916
<u>791,603</u>	<u>697,848</u>
<u>\$ 9,053,608</u>	<u>\$ 6,626,764</u>

\$12,241,123	\$12,425,004
290,295	286,811
<u>2,637,364</u>	<u>2,506,166</u>
<u>\$15,168,782</u>	<u>\$15,217,981</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 2
City of Houghton's Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:				
Program revenues:				
Charges for services	\$ 714,985	\$ 786,700	\$2,468,075	\$2,474,257
Operating grants and contributions	1,907,233	1,922,188	269,277	223,953
Capital grants and contributions	81,984	110,894	82,030	8,207
General revenues:				
Property taxes	1,126,073	1,034,133	-	-
Investment earnings	52,418	64,162	15,253	15,818
Gain on sale of assets	58,608	29,188	-	-
Miscellaneous	24,661	13,986	-	-
Total revenues	<u>\$3,965,962</u>	<u>\$3,961,251</u>	<u>\$2,834,635</u>	<u>\$2,722,235</u>
Expenses:				
General government	\$ 779,262	\$1,262,261	\$ -	\$ -
Public safety	759,174	484,405	-	-
Public works	1,731,922	1,566,604	-	-
Community development	59,710	96,915	-	-
Recreation and parks	411,117	314,264	-	-
Interest on long-term debt	90,002	40,164	-	-
Water	-	-	799,949	844,020
Sewer	-	-	1,554,984	1,676,718
Parking	-	-	282,276	300,461
Transit	-	-	502,609	476,864
Total expenses	<u>\$3,831,187</u>	<u>\$3,764,613</u>	<u>\$3,139,818</u>	<u>\$3,298,063</u>
Increase (decrease) in net assets before transfers	\$ 134,775	\$ 196,638	(\$ 305,183)	(\$ 575,828)
Transfers	18,629	(19,130)	102,580	139,000
Increase in net assets	\$ 153,404	\$ 177,508	(\$ 202,603)	(\$ 436,828)
Net assets - beginning of year	<u>7,964,175</u>	<u>7,786,667</u>	<u>7,253,806</u>	<u>7,690,634</u>
Net assets - end of year	<u>\$8,117,579</u>	<u>\$7,964,175</u>	<u>\$7,051,203</u>	<u>\$7,253,806</u>

Total Primary Government	
<u>2006</u>	<u>2005</u>
\$ 3,183,060	\$ 3,260,957
2,176,510	2,146,141
164,014	119,101
1,126,073	1,034,133
67,671	79,980
58,608	29,188
<u>24,661</u>	<u>13,986</u>
\$ 6,800,597	\$ 6,683,486
\$ 779,262	\$ 1,262,261
759,174	484,405
1,731,922	1,566,604
59,710	96,915
411,117	314,264
90,002	40,164
799,949	844,020
1,554,984	1,676,718
282,276	300,461
<u>502,609</u>	<u>476,864</u>
\$ 6,971,005	\$ 7,062,676
(\$ 170,408)	(\$ 379,190)
<u>121,209</u>	<u>119,870</u>
(\$ 49,199)	(\$ 259,320)
<u>15,217,981</u>	<u>15,477,301</u>
<u>\$15,168,782</u>	<u>\$15,217,981</u>

Business-Type Activities (Water, Sewer, Parking and Transit)

In 2005-2006 all of the funds experienced a loss in fund balance. This was mainly due to depreciation. The Water and Sewer Fund did see a growth in net cash due to some increase in sales although the Water Fund did not pay any equipment rental for 2005-06. For the first time in five years we did not have a reduction in water and sewer usage from Michigan Tech University. Their use has stabilized and is about the same as it was in 2004-05. The Parking Fund also was not able to pay any equipment rental for 2005-06 as it was short on cash. The Transit Fund did break even but needed an additional \$10,000 from the General Fund.

The City Funds:

General Fund

In 2005-2006 the General Fund had an increase of fund equity of \$313,355. This was due to the fact that we received \$588,616 of the loan to do improvements to the heating system in City Hall and lighting improvements in all of our buildings, but only expensed \$173,585 of the work done. We did overestimate the amount of property tax revenue by five percent. The State funds for fire protection increased by \$11,000, while revenue sharing was down \$13,000. The Michigan Tech University landfill revenue and expense was down due to the fact that Waste Management is now billing Michigan Tech University directly. The entire revenue from Rural Development and the expenses for the construction for the new library were all in the 2005-06 General Fund. The General Fund also received as rent for the new library the 2 mils. that the library now receives from the TIFA Fund. That amount for 2005-06 was \$36,183. The amount of money spent for the planning was up significantly this year because of the Downtown Facade and Signature Building Grant expenses.

Major Street

Fund equity was up this year due to the fact that we had six weeks in January and February that we had very little snow. The easy winter also reduced our routine maintenance expense. We did see an increase in our State Snow Grant money from last year.

Local Street

The Local Street also saw increase in fund equity due to the fact that we had an easy winter. The routine maintenance expense was also reduced and we did see a significant increase in the State Snow Grant although we did not get any money from the State Right-of-Way Fund.

Revolving Loan Fund

The revenue for the Revolving Loan Fund was up significantly this year due to the fact that we had given out \$96,000 in Revolving Loans the year before and the payments started this year.

Public Improvement

The Public Improvement Fund showed a fund balance increase of around \$40,000 which was due to the fact that we had not completed the East Houghton Waterfront Pavilion as planned and we did put all of the money from the General Fund to the Public Improvement Fund for that project.

Parking

In 2005-2006 the Parking Fund had a loss in fund balance due to depreciation and a \$41,398 cash loss. Revenue for parking tickets was down slightly from the year before while parking deck maintenance and winter snow removal costs were high. The Fund was not able to pay any equipment rental this year.

Transit

The fund loss in Transit is due entirely to depreciation. Revenue from the State and Federal government were up from last year. Fuel and bus maintenance also showed an increase from the previous year.

Water Fund

Again this year the fund balance in the Water Fund decreased due to depreciation. We did increase our cash in the Fund due to some increase in sales and a loan from the Equipment Fund. Expenses were down from last year. The sales from MTU have leveled off as we saw a decrease for the three previous years from them. We did have an increase in sales to Portage Township as we had some additional customers hook up in Volin Estates. Our residential sales were down slightly. This could be due to the fact we increased rates a year ago.

Sewer Fund

In 2005-06 we saw a slight decrease in fund equity mainly due to depreciation and an increase in cash. This was due to a decrease in expenses especially with amount due to the Portage Lake Sewage Authority. Again the MTU usage has leveled off where it had been decreasing the past 3 years.

Equipment Fund

The Equipment Fund had an increase in fund equity and cash this year. Although the Parking Fund and Water Fund did not pay any equipment rental this year, due to lack of cash in those accounts. Again this year the cost of fuel was up significantly over last year. This was due to price increases, not usage.

Employee Benefit

This year the Employee Benefit Fund had a \$65,615 cash surplus. Since we raised the percentage to 95% of payroll the fund has been in good shape.

General Fund Budgetary Highlights

For 2005-06 we did overestimate the real property tax revenue by about five percent. We did have significant drop from Michigan Tech landfill charges as Waste Management is now billing Michigan Tech directly. We also had loan proceeds from the heating and electrical improvements to the City buildings that were included in this year's General Fund along with the bond proceeds of \$2,015,000 for the library project. There was nothing else unusual that took place in the General Fund for 2005-06.

Capital Assets-Debt Administration

Overall for 2005-2006 the City's Capital Assets were up \$1,824,350 due to the construction of the new library building. The overall debt was up \$2,378,919 from the loan for the library and heating and lighting improvements to the City's buildings.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 691,259	\$ 571,560	\$ -	\$ -
Investment in Portage Lake Water and Sewer Authority	-	-	941,313	941,313
Buildings	3,112,155	1,320,488	156,214	162,709
Improvements	1,708,190	1,642,147	43,951	34,957
Equipment	1,236,129	1,238,165	328,620	307,685
Infrastructure	<u>2,323,177</u>	<u>2,201,618</u>	<u>9,989,210</u>	<u>10,285,226</u>
Total	<u>\$9,070,910</u>	<u>\$6,973,978</u>	<u>\$11,459,308</u>	<u>\$11,731,890</u>
DEBT				
General Obligation Bonds	\$2,450,000	\$ 535,000	\$ -	\$ -
Revenue Bonds	-	-	5,002,000	5,095,000
Installment Purchase Contract	601,470	14,914	-	-
Limited Tax Investment Note	90,000	99,000	-	-
Economic Development Grant Loan	<u>145,624</u>	<u>166,261</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,287,094</u>	<u>\$ 815,175</u>	<u>\$ 5,002,000</u>	<u>\$ 5,095,000</u>

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and show the City's accountability for money it receives. If you have any questions about this report or need financial information, contact the City Clerk at 616 Shelden Avenue, Houghton, Michigan 49931.

Total Primary Government	
2006	2005
\$ 691,259	\$ 571,560
941,313	941,313
3,268,369	1,483,197
1,752,141	1,677,104
1,564,749	1,545,850
<u>12,312,387</u>	<u>12,486,844</u>
<u>\$20,530,218</u>	<u>\$18,705,868</u>
\$ 2,450,000	\$ 535,000
5,002,000	5,095,000
601,470	14,914
90,000	99,000
<u>145,624</u>	<u>166,261</u>
<u>\$ 8,289,094</u>	<u>\$ 5,910,175</u>

CITY OF HOUGHTON, MICHIGAN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government			
	Governmental	Business -		Component
	Activities	Type	Total	Units
		Activities		
<u>ASSETS</u>				
Cash	\$ 1,562,313	\$ 353,415	\$ 1,915,728	\$ 39,807
Accounts receivable	54,994	287,080	342,074	-
Taxes receivable	44,964	-	44,964	52,711
Due from other				
governmental units	314,305	16,125	330,430	300,512
Internal balances	264,181	(264,181)	-	-
Inventories	3,388	-	3,388	-
Restricted assets	-	365,769	365,769	-
Investments	325,214	-	352,214	-
Long-term loans	364,606	-	364,606	-
Capital assets - net	<u>9,070,910</u>	<u>11,459,307</u>	<u>20,530,217</u>	<u>4,281,478</u>
TOTAL ASSETS	<u>\$ 12,004,875</u>	<u>\$12,217,515</u>	<u>\$24,222,390</u>	<u>\$4,674,508</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 198,307	\$ 42,164	\$ 240,471	\$ 28,506
Accrued expenses	55,068	85,609	140,677	25,459
Due to component unit	118,860	-	118,860	(120,399)
Due to other				
governmental units	-	36,539	36,539	-
Noncurrent liabilities:				
Due within one year	149,056	106,000	255,056	210,200
Due in more than one year	<u>3,366,005</u>	<u>4,896,000</u>	<u>8,262,005</u>	<u>2,491,527</u>
TOTAL LIABILITIES	<u>\$ 3,887,296</u>	<u>\$ 5,166,312</u>	<u>\$ 9,053,608</u>	<u>\$2,635,293</u>
<u>NET ASSETS</u>				
Invested in capital assets,				
net of related debt	\$ 5,783,816	\$ 6,457,307	\$12,241,123	\$2,765,995
Restricted for debt service	-	290,295	290,295	-
Unrestricted	<u>2,333,763</u>	<u>303,601</u>	<u>2,637,364</u>	<u>(726,780)</u>
TOTAL NET ASSETS	<u>\$ 8,117,579</u>	<u>\$ 7,051,203</u>	<u>\$15,168,782</u>	<u>\$2,039,215</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES

Year ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Primary Government:				
Governmental activities:				
General government	\$ 779,262	\$ 249,304	\$ 843,073	\$ -
Public safety	759,174	12,044	39,010	-
Public works	1,731,922	336,585	1,025,150	81,984
Community development	59,710	-	-	-
Recreation and parks	411,117	117,052	-	-
Interest on long-term debt	90,002	-	-	-
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$3,831,187</u>	<u>\$ 714,985</u>	<u>\$ 1,907,233</u>	<u>\$ 81,984</u>
Business-type activities:				
Water	\$ 799,949	\$ 719,956	\$ 530	\$ -
Sewer	1,544,984	1,538,132	-	-
Parking	282,276	106,460	-	-
Transit	502,609	103,527	268,747	82,030
TOTAL BUSINESS-TYPE ACTIVITIES	<u>\$3,139,818</u>	<u>\$2,468,075</u>	<u>\$ 269,277</u>	<u>\$ 82,030</u>
TOTAL PRIMARY GOVERNMENT	<u>\$6,971,005</u>	<u>\$3,183,060</u>	<u>\$ 2,176,510</u>	<u>\$ 164,014</u>
Component Units:				
DDA	\$ 126,476	\$ -	\$ -	\$ -
TIFA	243,409	-	-	-
Brownfield	7,644	-	7,644	-
TOTAL COMPONENT UNITS	<u>\$ 377,529</u>	<u>\$ -</u>	<u>\$ 7,644</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Unrestricted investment earnings

Miscellaneous

Special item-Gain on sale of assets

Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets at beginning of year, as adjusted

Net assets at end of year

The accompanying notes to financial statements
are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets
Primary Government

<u>Government</u> <u>Activities</u>	<u>Business-</u> <u>type</u> <u>Activities</u>	<u>Total</u>	<u>Component</u> <u>Units</u>
\$ 313,115	\$ -	\$ 313,115	
(708,120)	-	(708,120)	
(288,203)	-	(288,203)	
(59,710)	-	(59,710)	
(294,065)	-	(294,065)	
(90,002)	-	(90,002)	
(\$1,126,985)	\$ -	(\$ 1,126,985)	
\$ -	(\$ 79,463)	(\$ 79,463)	
-	(16,852)	(16,852)	
-	(175,816)	(175,816)	
-	(48,305)	(48,305)	
\$ -	(\$ 320,436)	(\$ 320,436)	
(\$1,126,985)	(\$ 320,436)	(\$ 1,447,421)	
\$ -	\$ -	\$ -	(\$ 126,476)
-	-	-	(243,409)
-	-	-	-
\$ -	\$ -	\$ -	(\$ 369,885)
\$1,126,073	\$ -	\$ 1,126,073	\$ 887,658
52,418	15,253	67,671	19,728
24,661	-	24,661	8,166
58,608	-	58,608	-
18,629	102,580	121,209	(121,209)
\$1,280,389	\$ 117,833	\$ 1,398,222	\$ 794,343
\$ 153,404	(\$ 202,603)	(\$ 49,199)	\$ 424,458
7,964,175	7,253,806	15,217,981	1,614,757
\$8,117,579	\$7,051,203	\$15,168,782	\$2,039,215

CITY OF HOUGHTON, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 894,963	\$ 176,829	\$ 77,695
Accounts receivable	54,994	-	-
Taxes receivable	44,964	-	-
Inventories	3,388	-	-
Due from other funds	38,010	7,583	-
Due from other governmental units	103,684	52,955	75,682
Due from component units	-	-	6,712
Long-term loan	78,302	-	-
Investments	<u>325,214</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$1,543,519</u>	<u>\$ 237,367</u>	<u>\$ 160,089</u>
<u>LIABILITIES AND FUND BALANCES</u>			
<u>LIABILITIES</u>			
Accounts payable	\$ 67,165	\$ 6,751	\$ 8,851
Accrued expenses	23,017	1,969	3,134
Due to other funds	70,514	34,964	105,655
Due to component units	15,383	-	-
Deferred revenue	<u>87,299</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 263,378</u>	<u>\$ 43,684</u>	<u>\$ 117,640</u>
<u>FUND BALANCES</u>			
Reserved for inventory	\$ 3,388	\$ -	\$ -
Unreserved, reported in:			
General fund	1,276,753	-	-
Special revenue funds	-	193,683	42,449
Capital project fund	-	-	-
Debt service funds	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL FUND BALANCES	<u>\$1,280,141</u>	<u>\$ 193,683</u>	<u>\$ 42,449</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,543,519</u>	<u>\$ 237,367</u>	<u>\$ 160,089</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Revolving</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ 161,678	\$ 178,887	\$ 4,915	\$1,494,967
-	-	-	54,994
-	-	-	44,964
-	-	-	3,388
61,363	72,245	-	179,201
-	81,984	-	314,305
-	-	-	6,712
286,304	-	-	364,606
-	-	-	325,214
<u>\$ 509,345</u>	<u>\$ 333,116</u>	<u>\$ 4,915</u>	<u>\$2,788,351</u>

\$ -	\$ 98,104	\$ -	\$ 180,871
-	3,967	-	32,087
-	61,363	-	272,496
-	88,769	-	104,152
<u>286,304</u>	<u>-</u>	<u>-</u>	<u>373,603</u>
<u>\$ 286,304</u>	<u>\$ 252,203</u>	<u>\$ -</u>	<u>\$ 963,209</u>

\$ -	\$ -	\$ -	\$ 3,388
-	-	-	1,276,753
223,041	-	-	459,173
-	80,913	-	80,913
<u>-</u>	<u>-</u>	<u>4,915</u>	<u>4,915</u>
<u>\$ 223,041</u>	<u>\$ 80,913</u>	<u>\$ 4,915</u>	<u>\$1,825,142</u>
<u>\$ 509,345</u>	<u>\$ 333,116</u>	<u>\$ 4,915</u>	<u>\$2,788,351</u>

CITY OF HOUGHTON, MICHIGAN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS
June 30, 2006

Total fund balance - total governmental funds	\$1,825,142
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	7,990,680
Internal service funds are used by management to charge the costs of certain activities, such as equipment rental, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.	1,362,710
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet.	(20,092)
Deferred revenue is unavailable revenue and therefore is not reported as a liability in the statement of net assets.	373,603
Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	(3,414,464)
Net assets of governmental activities	<u>\$8,117,579</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year ended June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>
REVENUES:			
Taxes	\$1,020,890	\$ -	\$ 124,662
License and permits	1,090	-	-
State grants	875,683	765,491	259,659
Charges for services	703,871	-	-
Interest and rents	35,921	4,654	2,690
Other revenue	<u>118,689</u>	<u>-</u>	<u>1,371</u>
TOTAL REVENUES	<u>\$2,756,144</u>	<u>\$ 770,145</u>	<u>\$ 388,382</u>
EXPENDITURES:			
General government	\$ 879,954	\$ 37,008	\$ 31,407
Public safety	757,752	-	-
Public works	606,379	626,209	339,943
Recreation and parks	2,295,413	-	-
Other expenditures	109,285	-	-
Debt service:			
Principal	20,637	-	-
Interest and other charges	<u>4,749</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$4,674,169</u>	<u>\$ 663,217</u>	<u>\$ 371,350</u>
Excess (deficiency) of revenues over expenditures	<u>(\$1,918,025)</u>	<u>\$ 106,928</u>	<u>\$ 17,032</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from long-term debt	\$2,603,617	\$ -	\$ -
Transfers in	-	-	25,000
Transfers out	<u>(372,237)</u>	<u>(25,000)</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$2,231,380</u>	<u>(\$ 25,000)</u>	<u>\$ 25,000</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>\$ 313,355</u>	<u>\$ 81,928</u>	<u>\$ 42,032</u>
Fund balances at beginning of year	<u>\$ 966,786</u>	<u>\$ 111,755</u>	<u>\$ 417</u>
Fund balances at end of year	<u><u>\$1,280,141</u></u>	<u><u>\$ 193,683</u></u>	<u><u>\$ 42,449</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Revolving</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$1,145,552
-	-	-	1,090
-	81,984	-	1,982,817
-	-	-	703,871
8,299	-	-	51,564
<u>49,073</u>	<u>5,956</u>	<u>-</u>	<u>175,089</u>
<u>\$ 57,372</u>	<u>\$ 87,940</u>	<u>\$ -</u>	<u>\$4,059,983</u>
\$ 1,161	\$ 38,211	\$ -	\$ 987,741
-	-	-	757,752
-	216,904	-	1,789,435
-	-	-	2,295,413
-	-	-	109,285
-	-	100,000	120,637
-	-	<u>64,863</u>	<u>69,612</u>
<u>\$ 1,161</u>	<u>\$ 255,115</u>	<u>\$ 164,863</u>	<u>\$6,129,875</u>
<u>\$ 56,211</u>	<u>(\$ 167,175)</u>	<u>(\$ 164,863)</u>	<u>(\$2,069,892)</u>
\$ -	\$ -	\$ -	\$2,603,617
-	207,500	169,663	402,163
-	-	-	(397,237)
<u>\$ -</u>	<u>\$ 207,500</u>	<u>\$ 169,663</u>	<u>\$2,608,543</u>
<u>\$ 56,211</u>	<u>\$ 40,325</u>	<u>\$ 4,800</u>	<u>\$ 538,651</u>
<u>\$ 166,830</u>	<u>\$ 40,588</u>	<u>\$ 115</u>	<u>\$1,286,491</u>
<u><u>\$ 223,041</u></u>	<u><u>\$ 80,913</u></u>	<u><u>\$ 4,915</u></u>	<u><u>\$1,825,142</u></u>

CITY OF HOUGHTON, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds	\$ 538,651
Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	
	2,413,594
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources; therefore, depreciation expense is not reported as an expenditure in governmental funds. Includes Internal Service Fund's depreciation expense of \$212,355 and reduced by depreciation recaptured on assets sold of \$1,500.	
	(500,780)
Proceeds from the sale of capital assets is recorded in the governmental funds, but not in the statement of activities where it reduces capital assets.	
	(50,010)
Governmental funds report the issuance of long-term debt as revenue. However, in the statement of activities, it increases long-term liabilities.	
	(2,603,617)
Repayments of long-term debt is an expenditure in the governmental funds, but not in the statement of activities where it reduces long-term debt.	
	121,153
Repayments of revolving loan fund loan principal, in the amount of \$49,073 is recorded as revenue in the governmental funds. Additional interest due from revolving loans in the amount of \$1,740 is recorded as receivable in the governmental funds. These amounts are not recorded in the statement of activities.	
	(47,333)
Some property tax and long-term receivables will not be collected until after the City's fiscal year end; therefore, they are not considered "available" revenues in the governmental funds.	
	(19,479)
Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds.	
	(15,426)
Internal service funds are used by management to charge the costs of certain activities, such as equipment rentals, to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities net of amount allocated to business-type and component units activities and depreciation expense.	
Change in net assets	\$121,967
Net of amount allocated to business-type and component unit activities	(17,671)
Depreciation expense	212,355
	<u>316,651</u>
Change in net assets of governmental activities	<u>\$ 153,404</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2006

<u>Business-Type Activities - Enterprise Funds</u>				
	<u>Water Supply Fund</u>	<u>Sewer Disposal System Fund</u>	<u>Parking System Fund</u>	<u>Transit Fund</u>
<u>ASSETS</u>				
<u>CURRENT ASSETS</u>				
Cash	\$ 5,840	\$ 334,550	\$ 4,240	\$ 8,785
Accounts receivable	91,741	191,162	636	3,541
Due from other funds	-	28,961	-	-
Due from component units	-	-	-	-
Due from other governmental units	-	-	-	16,125
TOTAL CURRENT ASSETS	<u>\$ 97,581</u>	<u>\$ 554,673</u>	<u>\$ 4,876</u>	<u>\$ 28,451</u>
<u>NONCURRENT ASSETS</u>				
Restricted assets	\$ 325,612	\$ 40,157	\$ -	\$ -
Capital assets:				
Property and equipment	9,372,444	5,509,531	4,418,758	1,340,785
Less accumulated depreciation	(3,473,100)	(3,354,096)	(2,299,040)	(997,288)
Investment in Portage Lake Water and Sewer Authority	-	941,313	-	-
TOTAL NONCURRENT ASSETS	<u>\$6,224,956</u>	<u>\$3,136,905</u>	<u>\$2,119,718</u>	<u>\$ 343,497</u>
TOTAL ASSETS	<u>\$6,322,537</u>	<u>\$3,691,578</u>	<u>\$2,124,594</u>	<u>\$ 371,948</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Totals</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 353,415	\$ 67,346
287,080	-
28,961	469,412
-	2,203
<u>16,125</u>	<u>-</u>
<u>\$ 685,581</u>	<u>\$ 538,961</u>
 \$ 365,769	 \$ -
20,641,518	3,386,586
(10,123,524)	(2,306,356)
<u>941,313</u>	<u>-</u>
<u>\$11,825,076</u>	<u>\$ 1,080,230</u>
<u>\$12,510,657</u>	<u>\$ 1,619,191</u>

CITY OF HOUGHTON, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (CONTINUED)

June 30, 2006

<u>Business-Type Activities - Enterprise Funds</u>				
	<u>Water</u>	<u>Sewer</u>	<u>Parking</u>	<u>Transit</u>
	<u>Supply</u>	<u>Disposal</u>	<u>System</u>	
	<u>Fund</u>	<u>System</u>	<u>Fund</u>	<u>Fund</u>
		<u>Fund</u>		
<u>LIABILITIES</u>				
<u>CURRENT LIABILITIES</u>				
Accounts payable	\$ 21,119	\$ 13,892	\$ 1,691	\$ 5,462
Accrued wages and benefits	1,282	2,188	801	5,864
Accrued expenses	66,235	9,239	-	-
Due to other funds	122,040	-	238,835	1,339
Due to other governmental units	-	1,223	-	35,316
Current maturities on long-term debt	66,000	40,000	-	-
TOTAL CURRENT LIABILITIES	<u>\$ 276,676</u>	<u>\$ 66,542</u>	<u>\$ 241,327</u>	<u>\$ 47,981</u>
<u>NONCURRENT LIABILITIES</u>				
Loans payable	\$ -	\$ -	\$ -	\$ -
Bonds payable	4,452,000	550,000	-	-
Less current maturities	(66,000)	(40,000)	-	-
TOTAL NONCURRENT LIABILITIES	<u>\$4,386,000</u>	<u>\$ 510,000</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>\$4,662,676</u>	<u>\$ 576,542</u>	<u>\$ 241,327</u>	<u>\$ 47,981</u>
<u>NET ASSETS</u>				
Invested in capital assets - net of related debt	\$1,447,344	\$2,546,748	\$2,119,718	\$343,497
Restricted for debt service	259,377	30,918	-	-
Unrestricted	(46,860)	537,370	(236,451)	(19,530)
TOTAL NET ASSETS	<u>\$1,659,861</u>	<u>\$3,115,036</u>	<u>\$1,883,267</u>	<u>\$323,967</u>

Reconciliation to government-wide statements of net assets:

Adjustment to reflect the consolidation of Internal Service Funds' activities related to enterprise funds.

Net assets of business-type activities.

The accompanying notes to financial statements are an integral part of this statement.

<u>Totals</u>	Governmental Activities - Internal Service <u>Fund</u>
\$ 42,164	\$ 17,436
10,135	-
75,474	2,889
362,214	42,864
36,539	-
<u>106,000</u>	<u>14,474</u>
\$ <u>632,526</u>	\$ <u>77,663</u>
\$ -	\$ 100,597
5,002,000	-
(<u>106,000</u>)	(<u>14,474</u>)
\$ <u>4,896,000</u>	\$ <u>86,123</u>
\$ <u>5,528,526</u>	\$ <u>163,786</u>
\$ 6,457,307	\$ 979,633
290,295	-
<u>234,529</u>	<u>475,772</u>
\$ 6,982,131	\$ <u><u>1,455,405</u></u>
<u>69,072</u>	
<u>\$ 7,051,203</u>	

CITY OF HOUGHTON, MICHIGAN
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
 Year ended June 30, 2006

	<u>Business-Type Activities - Enterprise Funds</u>			
	<u>Water Supply Fund</u>	<u>Sewer Disposal System Fund</u>	<u>Parking System Fund</u>	<u>Transit Fund</u>
Operating revenues:				
Utility Services	\$ 697,182	\$1,536,582	\$ -	\$ -
Parking revenues	-	-	106,060	-
Transit fares	-	-	-	103,527
Rents and other revenues	<u>23,304</u>	<u>1,550</u>	<u>400</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>\$ 720,486</u>	<u>\$1,538,132</u>	<u>\$ 106,460</u>	<u>\$103,527</u>
Operating expenses:				
Operating expenses -				
Less depreciation	\$ 413,892	\$1,426,971	\$ 177,873	\$400,043
Depreciation	<u>186,825</u>	<u>101,240</u>	<u>108,544</u>	<u>59,267</u>
TOTAL OPERATING EXPENSES	<u>\$ 600,717</u>	<u>\$1,528,211</u>	<u>\$ 286,417</u>	<u>\$459,310</u>
OPERATING INCOME (LOSS)	<u>\$ 119,769</u>	<u>\$ 9,921</u>	<u>(\$ 179,957)</u>	<u>(\$355,783)</u>
Non-operating revenues:				
Interest income and other revenue	\$ 6,181	\$ 9,038	\$ 15	\$ 19
Gain on sale of equipment	-	-	-	-
Operating grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>268,747</u>
TOTAL NON-OPERATING REVENUES	<u>\$ 6,181</u>	<u>\$ 9,038</u>	<u>\$ 15</u>	<u>\$268,766</u>
Non-operating expenses:				
Interest	\$ 202,301	\$ 31,080	\$ -	\$ 103
Service grants	<u>-</u>	<u>-</u>	<u>-</u>	<u>43,207</u>
TOTAL NON-OPERATING EXPENSES	<u>\$ 202,301</u>	<u>\$ 31,080</u>	<u>\$ -</u>	<u>\$ 43,310</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS	<u>(\$ 76,351)</u>	<u>(\$ 12,121)</u>	<u>(\$ 179,942)</u>	<u>(\$130,327)</u>
Capital contributions	-	-	-	82,030
Transfers in (out)	<u>-</u>	<u>-</u>	<u>30,000</u>	<u>72,580</u>
CHANGE IN NET ASSETS	<u>(\$ 76,351)</u>	<u>(\$ 12,121)</u>	<u>(\$ 149,942)</u>	<u>\$ 24,283</u>
Total net assets - beginning	<u>\$1,736,212</u>	<u>\$3,127,157</u>	<u>\$2,033,209</u>	<u>\$299,684</u>
Total net assets - ending	<u>\$1,659,861</u>	<u>\$3,115,036</u>	<u>\$1,883,267</u>	<u>\$323,967</u>

Amounts reported for business-type activities in the statement of activities are different because:

The net revenue (expense) of certain internal funds are reported with business-type activities.

Change in net assets of business-type activities.

The accompanying notes to financial statements are an integral part of this statement.

<u>Totals</u>	Governmental Activities- Internal Service Fund
---------------	--

\$2,233,764	\$ -
106,060	-
103,527	-
<u>25,254</u>	<u>776,755</u>
<u>\$2,468,605</u>	<u>\$ 776,755</u>

\$2,418,779	\$ 473,654
<u>455,876</u>	<u>212,355</u>
<u>\$2,874,655</u>	<u>\$ 686,009</u>
<u>(\$ 406,050)</u>	<u>\$ 90,766</u>

\$ 15,253	\$ 854
-	22,187
<u>268,747</u>	<u>-</u>
<u>\$ 284,000</u>	<u>\$ 23,041</u>

\$ 233,484	\$ 5,543
<u>43,207</u>	<u>-</u>
<u>\$ 276,691</u>	<u>\$ 5,543</u>

(\$ 398,741)	\$ 108,264
82,030	-
<u>102,580</u>	<u>13,703</u>
<u>(\$ 214,131)</u>	<u>\$ 121,967</u>
	<u>\$ 1,333,438</u>
	<u><u>\$ 1,455,405</u></u>

<u>11,528</u>
<u><u>(\$ 202,603)</u></u>

CITY OF HOUGHTON, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
Year ended June 30, 2006

	Business-Type Activities Enterprise Funds		
	Water Supply Fund	Sewer Disposal System Fund	Parking System Fund
Cash flows from operating activities:			
Receipts from customers	\$717,528	\$1,541,817	\$106,380
Payments to suppliers	(233,286)	(1,270,156)	(102,248)
Payments to employees	(184,508)	(144,271)	(83,252)
Other receipts (payments)	-	-	-
Net cash provided (used) by operating activities	<u>\$299,734</u>	<u>\$ 127,390</u>	<u>(\$ 79,120)</u>
Cash flows from noncapital financing activities:			
(Increase) decrease in due from other funds and component units	\$ -	\$ 61,717	\$ -
(Increase) decrease in due from other governmental units	-	-	-
Increase (decrease) in due to other funds and component units	(5,854)	-	48,193
Increase (decrease) in due to other governmental units	-	-	-
Transfers from other funds and component units	-	-	-
Proceeds from grants	-	-	30,000
Specialized services grants paid	-	-	-
Interest expense and finance charges	-	-	-
Net cash provided (used) by noncapital financing activities	<u>(\$ 5,854)</u>	<u>\$ 61,717</u>	<u>\$ 78,193</u>
Cash flows from capital and related financing activities:			
Capital contributions	\$ -	\$ -	\$ -
Proceeds from sale of equipment	-	-	-
Acquisition of property, plant and equipment	(56,132)	(37,205)	-
Issuance (reduction) of long-term debt	(53,000)	(40,000)	-
(Increase) decrease in grants receivable	-	-	-
(Increase) decrease in restricted assets	2,645	(4,785)	-
Interest paid on long-term debt	(203,072)	(31,653)	-
Net cash provided (used) by capital and related financing activities	<u>(\$309,559)</u>	<u>(\$ 113,643)</u>	<u>\$ -</u>

The accompanying notes to financial statements are an integral part of this statement.

<u>Transit Fund</u>	<u>Totals</u>	Governmental Activities - Internal Service <u>Fund</u>
\$ 105,600	\$2,471,325	\$ 689,813
(142,266)	(1,747,956)	(393,369)
(263,113)	(675,144)	(79,443)
-	-	5,268
<u>(\$ 299,779)</u>	<u>\$ 48,225</u>	<u>\$ 222,269</u>
\$ 19,000	\$ 80,717	(\$ 20,000)
2,481	2,481	-
1,339	43,678	-
(12,565)	(12,565)	-
72,580	102,580	13,703
268,747	268,747	-
(43,207)	(43,207)	-
(103)	(103)	-
<u>\$ 308,272</u>	<u>\$ 442,328</u>	<u>(\$ 6,297)</u>
\$ 82,030	\$ 82,030	\$ -
-	-	49,806
(89,956)	(183,293)	(293,742)
-	(93,000)	(13,316)
(7,124)	(7,124)	-
-	(2,140)	-
<u>-</u>	<u>(234,725)</u>	<u>(5,686)</u>
<u>(\$ 15,050)</u>	<u>(\$ 438,252)</u>	<u>(\$ 262,938)</u>

CITY OF HOUGHTON, MICHIGAN
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 Year ended June 30, 2006

	Business-Type Activities Enterprise Funds		
	Water System Fund	Sewer Disposal System Fund	Parking System Fund
Cash flows from investing activities -			
Interest received	\$ 6,181	\$ 9,038	\$ 15
Net increase (decrease) in cash and cash equivalents	(\$ 9,498)	\$ 84,502	(\$ 912)
Cash - beginning of year	15,338	250,048	5,152
Cash - end of year	<u>\$ 5,840</u>	<u>\$ 334,550</u>	<u>\$ 4,240</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 119,769	\$ 9,921	(\$ 179,957)
Adjustments to reconcile operating income to net cash provided (used) by by operating activities -			
Depreciation expense	186,825	101,240	108,544
Changes in assets and liabilities:			
Receivables	(2,958)	3,685	(80)
Due from other funds and component units	-	-	-
Due from other governmental units	-	2,101	-
Accounts and other payables	3,112	13,379	(5,345)
Accrued expenses	(7,014)	(4,159)	(2,282)
Due to other funds	-	-	-
Due to other governmental units	-	1,223	-
Net cash provided by operating activities	<u>\$ 299,734</u>	<u>\$ 127,390</u>	<u>(\$ 79,120)</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Transit Fund</u>	<u>Totals</u>	<u>Governmental Activities - Internal Service Fund</u>
\$ 19	\$ 15,253	\$ 854
(\$ 6,538)	\$ 67,554	(\$ 46,112)
<u>15,323</u>	<u>285,861</u>	<u>113,458</u>
<u>\$ 8,785</u>	<u>\$ 353,415</u>	<u>\$ 67,346</u>
(\$ 355,783)	(\$ 406,050)	\$ 90,766
59,267	455,876	212,355
2,073	2,720	-
-	-	(32,247)
-	2,101	-
1,860	13,006	2,369
(7,196)	(20,651)	(1,527)
-	-	(49,447)
<u>-</u>	<u>1,223</u>	<u>-</u>
<u>(\$ 299,779)</u>	<u>\$ 48,225</u>	<u>\$ 222,269</u>

CITY OF HOUGHTON, MICHIGAN
FIDUCIARY FUND TYPES
STATEMENT OF NET ASSETS

June 30, 2006

	<u>Pension Trust Fund Employee Retirement Fund</u>	<u>Employee Benefit Fund</u>	<u>Agency Fund Tax Collection Fund</u>
<u>ASSETS</u>			
Cash	\$ 88,788	\$ 222,728	\$ 13,372
Investments - at fair value	4,645,179	-	-
Due from other funds	-	-	-
Prepaid expenses	-	48,231	-
Loans to retirement plan participants	131,709	-	-
TOTAL ASSETS	<u>\$ 4,865,676</u>	<u>\$ 270,959</u>	<u>\$ 13,372</u>
<u>LIABILITIES</u>			
Cash overdraft	\$ -	\$ -	\$ -
Accounts payable	-	-	-
Accrued expenses and payroll taxes	-	-	-
Due to other governmental units	-	-	11,833
Due to component units	-	-	1,539
Accumulated employee sick leave	-	56,785	-
Accumulated employee vacation	-	88,836	-
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ 145,621</u>	<u>\$ 13,372</u>
<u>NET ASSETS</u>			
Held in trust for pension benefits	\$ 4,865,676	\$ -	\$ -
Unrestricted	-	125,338	-
TOTAL NET ASSETS	<u>\$ 4,865,676</u>	<u>\$ 125,338</u>	<u>\$ -</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 FIDUCIARY FUND TYPES
 STATEMENT OF CHANGES IN NET ASSETS
 Year ended June 30, 2006

	<u>Pension Trust Fund Employee Retirement Fund</u>	<u>Employee Benefit Fund</u>
Operating revenues:		
Employer contributions	\$ 187,950	\$ -
Investment income (loss)	232,543	-
Charges for services	-	1,069,872
Other revenue	-	12,710
TOTAL OPERATING REVENUES	<u>\$ 420,493</u>	<u>\$1,082,582</u>
Operating expenses:		
Plan distributions	\$ 349,799	\$ -
Payroll taxes - employee share	-	127,977
Hospitalization insurance	-	421,413
Sick pay	-	45,637
Vacation pay	-	101,469
Holiday pay	-	36,307
Longevity pay	-	11,725
Workers' compensation insurance	-	34,252
Unemployment insurance	-	1,787
Retirement contributions	-	187,950
Life insurance	-	31,269
Disability insurance	-	6,302
Other	-	10,879
TOTAL OPERATING EXPENSES	<u>\$ 349,799</u>	<u>\$1,016,967</u>
OPERATING INCOME (LOSS)	\$ 70,694	\$ 65,615
Nonoperating revenues (expenses) -		
Net appreciation (depreciation) in fair value of investments	<u>166,119</u>	<u>-</u>
Changes in net assets	\$ 236,813	\$ 65,615
Net assets - beginning of year	<u>4,628,863</u>	<u>59,723</u>
Net assets - end of year	<u>\$ 4,865,676</u>	<u>\$ 125,338</u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

COMPONENT UNITS
STATEMENT OF NET ASSETS

June 30, 2006

	<u>Downtown Development Authority</u>	<u>Tax Increment Finance Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash	\$ 12,345	\$ 27,361	\$ 101	\$ 39,807
Taxes receivable	32,638	20,073	-	52,711
Due from primary government	7,460	106,471	15,383	129,314
Due from other governmental units	-	-	300,512	300,512
Capital assets-net	<u>755,957</u>	<u>3,525,521</u>	<u>-</u>	<u>4,281,478</u>
TOTAL ASSETS	<u>\$ 808,400</u>	<u>\$3,679,426</u>	<u>\$ 315,996</u>	<u>\$4,803,822</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 21,693	\$ 6,813	\$ -	\$ 28,506
Accrued expenses	10,215	15,244	-	25,459
Due to primary government	-	8,915	-	8,915
Noncurrent liabilities:				
Due within one year	55,082	115,000	40,118	210,200
Due in more than one year	<u>905,650</u>	<u>1,325,483</u>	<u>260,394</u>	<u>2,491,527</u>
TOTAL LIABILITIES	<u>\$ 992,640</u>	<u>\$1,471,455</u>	<u>\$ 300,512</u>	<u>\$2,764,607</u>
<u>NET ASSETS</u>				
Invested in capital assets, net of related debt	\$ 680,957	\$2,085,038	\$ -	\$2,765,995
Unrestricted	<u>(865,197)</u>	<u>122,933</u>	<u>15,484</u>	<u>(726,780)</u>
TOTAL NET ASSETS	<u>(\$ 184,240)</u>	<u>\$2,207,971</u>	<u>\$ 15,484</u>	<u>\$2,039,215</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 COMPONENT UNITS - STATEMENT OF ACTIVITIES
 Year ended June 30, 2006

		<u>Program Revenues</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions/Programs				
Downtown Development				
Authority:				
General government	\$ 110,585	\$ -	\$ -	\$ -
Public works	<u>15,891</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DOWNTOWN				
DEVELOPMENT AUTHORITY	<u>\$ 126,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Tax Increment				
Finance Authority:				
General government	\$ 163,459	\$ -	\$ -	\$ -
Public works	<u>79,950</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL TAX INCREMENT				
FINANCE AUTHORITY	<u>\$ 243,409</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Brownfield Redevelopment				
Authority -				
General government	<u>\$ 7,644</u>	<u>\$ -</u>	<u>\$ 7,644</u>	<u>\$ -</u>

General revenues:
 Property taxes, levied for general purposes
 Unrestricted investment earnings
 Miscellaneous
 Transfers

Change in net assets
 Net assets at beginning of year
 Net assets at end of year

The accompanying notes to financial statements
 are an integral part of this statement.

<u>Net (Expenses) Revenues and Changes in Net Assets</u>			
<u>Downtown Development Authority</u>	<u>Tax Increment Finance Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
(\$ 110,585)	\$ -	\$ -	(\$ 110,585)
(15,891)	-	-	(15,891)
(\$ 126,476)	\$ -	\$ -	(\$ 126,476)
\$ -	(\$ 163,459)	\$ -	(\$ 163,459)
-	(79,950)	-	(79,950)
\$ -	(\$ 243,409)	\$ -	(\$ 243,409)
\$ -	\$ -	\$ -	\$ -
\$ 362,145	\$ 525,513	\$ -	\$ 887,658
2,683	17,044	1	19,728
8,166	-	-	8,166
(121,209)	-	-	(121,209)
\$ 251,785	\$ 542,557	\$ 1	\$ 794,343
\$ 125,309	\$ 299,148	\$ 1	\$ 424,458
(309,549)	1,908,823	15,483	1,614,757
<u>(\$ 184,240)</u>	<u>\$ 2,207,971</u>	<u>\$ 15,484</u>	<u>\$2,039,215</u>

CITY OF HOUGHTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2006

NOTE A - DESCRIPTION OF CITY OPERATIONS

The City was organized on June 8, 1970 and covers an area of approximately 1,869 acres. The City operates under a Council-Manager form of government with an elected council of seven members.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Houghton conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Houghton:

REPORTING ENTITY

The City of Houghton is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund types and account groups.

BUILDING AUTHORITY

The Building Authority of the City of Houghton is governed by a five member board appointed by the City Council. It was created to facilitate the issuance of bonded debt. This unit has no day-to-day operations and the debt issued by it is reflected in the government-wide statement of net assets under governmental activities and component units.

DISCRETELY PRESENTED COMPONENT UNITS

The following component units are reported within the "component units" column in the financial statements. A discretely presented component unit is an entity that is legally separate from the city, but for which the city is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Downtown Development Authority, the Tax Increment Finance Authority and the Brownfield Redevelopment Authority are considered to be component units of the City and their financial statements are presented discretely with the City's. The Downtown Development Authority, the Tax Increment Finance Authority and the Brownfield Redevelopment Authority are governed by the same board. The board consists of nine members which include the City Manager and 8 others that are appointed by the Mayor subject to approval by the City Council.

The Houghton Housing Commission is a component unit of the City of Houghton. It is governed by a five member board appointed by the City Manager. It is audited separately.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Financial information for the Houghton Housing Commission as of December 31, 2005, the last year that audited financial information is available, is as follows:

Assets:	
Current assets	\$ 340,481
Net fixed assets	<u>1,550,710</u>
Total Assets	<u>\$1,891,191</u>
Liabilities:	
Current liabilities	\$ 52,496
Other	<u>2,284</u>
Total Liabilities	<u>\$ 54,780</u>
Net Assets:	
Investment in capital assets, net of related debt	\$1,550,710
Unrestricted net assets	<u>285,701</u>
Total Net Assets	<u>\$1,836,411</u>
Operating Revenues:	
Tenant revenue	\$ 201,058
Program grants - subsidies	174,126
Other	<u>3,759</u>
Total Operating Revenues	<u>\$ 378,943</u>
Operating Expenses:	
General operations	\$ 337,619
Depreciation	<u>139,387</u>
Total Operating Expenses	<u>\$ 477,006</u>
Operating Income (Loss)	<u>(\$ 98,063)</u>
Other Income (Expenses)	<u>\$ 67,513</u>
Change in Net Assets	<u>(\$ 30,550)</u>
Net Assets, beginning of period	<u>1,866,961</u>
Net Assets, end of period	<u>\$1,836,411</u>

Complete financial information can be obtained by contacting Heritage Manor, Houghton, Michigan 49931.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS

On January 24, 1964, Portage Lake Water and Sewer Authority entered into a contract with the City of Houghton and the City of Hancock. The contract calls for the acquisition, improvements, enlargements, extension, operation and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station. The Authority is not considered a component unit of either city. The City's investment in the Authority is included in the Sewage Disposal System Fund's financial statements using the cost method of accounting.

Audited financial information for the joint venture as of June 30, 2006:

Total assets	<u>\$24,995,011</u>
Liabilities:	
Current liabilities	\$ 509,246
Long-term liabilities	<u>7,794,424</u>
Total equity	<u>\$ 8,303,670</u> <u>16,691,341</u> <u>\$24,995,011</u>
Total revenues	\$ 1,143,383
Total expenditures	<u>1,143,383</u>
INCREASE IN FUND EQUITY FROM OPERATIONS	\$ -
Equity contributions	<u>482,011</u>
TOTAL INCREASE IN FUND EQUITY	<u>\$ 482,011</u>

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary is financially accountable.

The statement of activities demonstrates the degree to which the direct expense of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government wide financial statements. Individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into seven generic fund types and three broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

General Obligation Debt Retirement Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds).

PROPRIETARY FUNDS

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, and/or other funds. These include the Tax Collection Fund, an Agency Fund; the Employee Retirement Fund, a pension Fund; and the Employee Benefit Fund, a Non-expendable Trust Fund. The Employee Retirement Fund and the Employee Benefit Fund are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and don't involve measurement of results of operations.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned, including unbilled water and sewer services which are accrued, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Governmental Fund Types and Expendable Trust Funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Agency Funds also use the modified accrual basis of accounting. under the modified accrual basis of accounting, revenues are recognized under the when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and inter-governmental revenues.

Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other Governmental Fund Type revenues are recognized when received.

Property taxes include amounts levied against all real and public utility property and tangible personal property which is used in business located in the City. Taxes are levied on July 1 on the taxable value listed as of the prior January 1. The due date for taxes to be paid without penalty for the summer levy is July 31, the winter levy due date is December 1. All real property taxes remaining unpaid by March 1 are bought by Houghton County. Property tax revenue is recognized as of July 1, when the taxes are levied. In the fund financial statements, any taxes collected before that date are recorded as deferred revenue. Property taxes receivable over 60 days are required to be recorded as deferred revenue in accordance with generally accepted accounting principles for local governments.

Taxable values are established by the City Assessor. A revaluation of all property is required annually. The City's tax rate applicable to 2005 was \$15.00 on each 1,000.00 of tax valuation.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

BANK DEPOSITS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sale price. Investments that do not have an established market are reported at estimated fair value. All investments comply with Michigan Compiled Laws, Section 129.91.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are shown without an allowance for uncollectible amounts.

INVENTORIES AND PREPAID ITEMS

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

RESTRICTED ASSETS

The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Interest has not been capitalized on fixed assets.

Property, plant, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

Buildings	40-60 years
Building improvements	15-30 years
Water and sewer lines	10-50 years
Roads	50 years
Other infrastructure	50 years
Vehicles	3-5 years
Office equipment	5-7 years
Computer equipment	3-7 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ACCUMULATED EMPLOYEE SICK LEAVE AND VACATION

City employees earn vacation leave, which generally cannot be accumulated. Unused sick leave may be accumulated to a specific maximum amount. In accordance with generally accepted accounting principles an accrual for compensated absences is reflected in the fiduciary fund types financial statements. The amount of current year compensated absences for the City is budgeted annually as an expense in the Employee Benefit Fund. The liability is split between the current and the long-term portion. The current portion is recorded in the Employee Benefit Fund. The long-term portion is recorded in the Government-Wide Statement of Net Assets.

NOTE C - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City of Houghton to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation, repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The investment policy as required by Act 196 PA 1997 has been adopted by the Council. The City's deposits and investments are in accordance with statutory authority. At June 30, 2006, the City of Houghton's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>	<u>Component Units</u>
Cash and cash equivalents	\$ 1,562,313	\$ 353,415	\$ 324,888	\$2,240,616	\$ 39,807
Investments	325,214	-	4,645,179	4,970,393	-
Restricted assets	-	365,769	-	365,769	-
Total	<u>\$ 1,887,527</u>	<u>\$ 719,184</u>	<u>\$4,970,067</u>	<u>\$7,576,778</u>	<u>\$ 39,807</u>

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

	<u>Bank Balances</u>		
<u>Deposits</u>	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Insured or collateralized	\$2,350,930	\$ 71,178	\$2,422,108
Uninsured	217,081	-	217,081
Total Deposits	<u>\$2,568,011</u>	<u>\$ 71,178</u>	<u>\$2,639,189</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - DEPOSITS AND INVESTMENTS (CONTINUED)

At year end, the carrying amount of cash was \$2,151,826 and \$39,807 for the primary government and component units respectively. Deposits totalling \$74,964 are included with Restricted Assets and deposits of \$88,788 are classified as Retirement Account-Cash. Included with Cash was petty cash of \$764. The total carrying amount of deposits in these accounts is \$2,314,814 and \$39,807 for the primary government and component units respectively.

In accordance with GASB Statement No. 3, investments are classified into categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the City or its agent in the City's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name).

Investment Type

	(1)	(2)	(3)	<u>Reported Amount</u>	<u>Fair Value</u>
Risk-Categorized					
Cash equivalents	\$ 174,826	\$ -	\$ -	\$ 174,826	\$ 174,826
Stocks, bonds and secure mortgages	<u>1,121,255</u>	<u>-</u>	<u>-</u>	<u>1,121,255</u>	<u>1,121,255</u>
	<u>\$1,296,081</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,296,081</u>	<u>\$1,296,081</u>
Nonrisk-Categorized					
Mutual funds				\$3,795,605	\$3,795,605
Annuities				<u>169,510</u>	<u>169,510</u>
				<u>\$3,965,115</u>	<u>\$3,965,115</u>
Total investments				<u>\$5,261,196</u>	<u>\$5,261,196</u>

Investments totalling \$290,803 are included with Restricted Assets. Bonds and secured mortgages, stocks, mutual funds, and annuities are held in the Employee Retirement Fund.

The City of Houghton's General Fund and Water Supply Fund have investments in several money market mutual funds and bonds and secured mortgages. The nature of the mutual funds and annuities does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - RECEIVABLES

Receivables as of June 30, 2006 are as follows:

	General Fund	Special Revenue Funds	Capital Projects Fund	Water Fund	Sewer Fund
Taxes receivable	\$ 44,964	\$ -	\$ -	\$ -	\$ -
Accounts	54,994	-	-	91,741	191,162
Long-term loans	78,302	286,304	-	-	-
Intergovernmental	103,684	128,637	-	-	-
Grants	-	-	81,984	-	-
Total receivables	<u>\$281,944</u>	<u>\$414,941</u>	<u>\$ 81,984</u>	<u>\$91,741</u>	<u>\$191,162</u>

	Parking Fund	Transit Fund	Fiduciary Funds	Total
Taxes receivable	\$ -	\$ -	\$ -	\$ 44,964
Accounts	636	3,541	-	342,074
Long-term loans	-	-	131,709	496,315
Intergovernmental	-	9,001	-	241,322
Grants	-	7,124	-	89,108
Total receivables	<u>\$ 636</u>	<u>\$ 19,666</u>	<u>\$ 131,709</u>	<u>\$1,213,783</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes	\$ 8,998	\$ -
Long-term loans receivable	<u>364,605</u>	<u>-</u>
Total	<u>\$ 373,603</u>	<u>\$ -</u>

LONG-TERM LOANS RECEIVABLE

The long-term loan receivable in the General Fund is the amount due on an installment sale (\$200,000 original balance, \$78,302 remaining) of a building to U.P. Engineering, Inc.. The agreement calls for 240 monthly payments of \$1,432.90, which includes interest at a rate of 6% per annum.

Long-term loans receivable in the Revolving Fund, totalling \$286,304, consist of loans made to various commercial organizations from funds provided by Urban Development Action Grants and Community Development Block Grants. Interest rates vary from 2% to 4% per annum. Loans are payable over periods ranging from ten to twenty years.

Included in these long-term loans receivable is a secured loan of \$173,000 to the U.P. Hotel Group, Inc.. Payments on this loan have been limited to interest payments only, until a balloon payment due in August 2011. Currently sixteen months of interest remain unpaid. There is also an unsecured loan to the U.P. Hotel Group, Inc. of \$13,020. Repayments on this loan were scheduled to begin in August of 2002 but no payments have been received to date.

These long-term receivables are offset by a like amount recorded as deferred revenue in each of these funds in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - LONG TERM - LOANS RECEIVABLES (CONTINUED)

TRANSIT FUND OPERATING GRANT UNDERPAYMENT (OVERPAYMENT)

a. The city received underpayments (overpayments) of State operating assistance in the current and prior years which have been recorded as a due from (to) State amount on the balance sheet at June 30, 2006. The amount receivable (owed) and the applicable years are as follows:

<u>For Fiscal Year</u>	<u>Due from (to) State</u>
1999-00	(\$ 11,144)
2000-01	(9,896)
2002-03	(3,494)
2003-04	(9,416)
2004-05	15,819
2005-06	<u>14,453</u>
	<u>(\$ 35,316)</u>

These amounts will be treated as adjustments to future State Assistance Payments.

b. The City has Federal Section 5311 funds receivable and payable from current and prior years operations which have been included as net accounts receivable on the balance sheet at June 30, 2006. The amounts and the applicable years are as follows:

<u>For Fiscal Year</u>	<u>Amount Receivable Payable</u>
1998-99	(\$ 167)
1999-00	(3,070)
2000-01	(72)
2001-02	2,419
2002-03	2,117
2003-04	(1,911)
2004-05	(2,225)
2005-06	<u>11,910</u>
	<u>\$ 9,001</u>

c. The amount of the 2005-06 State operating assistance receivable (payable) and Federal Section 5311 assistance receivable (payable) above was computed as follows:

	<u>State Operating Assistance</u>	<u>Federal Section 5311 Funds</u>
Maximum allowable per computation	\$ 124,946	\$ 54,110
2005-06 receipts	<u>110,493</u>	<u>42,200</u>
Amount receivable	<u>\$ 14,453</u>	<u>\$ 11,910</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1</u>	<u>Addition</u>
Governmental activities:		
Capital assets not being depreciated - land	\$ 571,560	\$ 119,699
Capital assets being depreciated:		
Buildings	\$ 1,857,282	\$1,895,000
Improvements	3,543,116	173,585
Equipment	3,467,792	270,153
Infrastructure	<u>3,527,083</u>	<u>216,904</u>
Total capital assets being depreciated	<u>\$12,395,273</u>	<u>\$2,555,642</u>
Less accumulated depreciation for:		
Buildings	(\$ 536,794)	(\$ 54,823)
Improvements	(1,900,969)	(107,542)
Equipment	(2,229,627)	(244,570)
Infrastructure	<u>(1,325,465)</u>	<u>(95,345)</u>
Total accumulated depreciation	<u>(\$ 5,992,855)</u>	<u>(\$ 502,280)</u>
Total capital assets, being depreciated, net	<u>\$ 6,402,418</u>	<u>\$2,053,362</u>
Governmental activities capital assets, net	<u>\$ 6,973,978</u>	<u>\$2,173,061</u>
Business-type activities:		
Capital assets not being depreciated - PLWSA	\$ 941,313	\$ -
Capital assets being depreciated:		
Buildings	\$ 254,777	\$ -
Improvements	36,058	10,085
Equipment	1,232,419	104,014
Infrastructure	<u>18,934,974</u>	<u>69,192</u>
Total capital assets being depreciated	<u>\$20,458,228</u>	<u>\$ 183,291</u>
Less accumulated depreciation for:		
Buildings	(\$ 92,068)	(\$ 6,495)
Improvements	(1,101)	(1,091)
Equipment	(924,734)	(83,079)
Infrastructure	<u>(8,649,748)</u>	<u>(365,208)</u>
Total accumulated depreciation	<u>(\$ 9,667,651)</u>	<u>(\$ 455,873)</u>
Total capital assets being depreciated, net	<u>\$10,790,577</u>	<u>(\$ 272,582)</u>
Business-type activities capital assets, net	<u>\$11,731,890</u>	<u>(\$ 272,582)</u>
Component unit activities:		
Capital assets not being depreciated - land	\$ 52,111	\$ -
Capital assets being depreciated:		
Buildings	\$ 549,625	\$ 58,488
Infrastructure	<u>3,946,252</u>	<u>533,893</u>
Total capital assets being depreciated	<u>\$ 4,495,877</u>	<u>\$ 592,381</u>
Less accumulated depreciation for:		
Buildings	(\$ 120,672)	(\$ 11,577)
Infrastructure	<u>(642,378)</u>	<u>(84,264)</u>
Total accumulated depreciation	<u>(\$ 763,050)</u>	<u>(\$ 95,841)</u>
Total capital assets being depreciated, net	<u>\$ 3,732,827</u>	<u>\$ 496,540</u>
Component unit activities capital assets, net	<u>\$ 3,784,938</u>	<u>\$ 496,540</u>

<u>Retirements</u>	<u>Balance</u> <u>June 30,</u>
\$ -	\$ 691,259
(\$ 50,010)	\$ 3,702,272
-	3,716,701
(204,028)	3,533,917
-	<u>3,743,987</u>
(\$ 254,038)	\$14,696,877
\$ 1,500	(\$ 590,117)
-	(2,008,511)
176,409	(2,297,788)
-	(<u>1,420,810</u>)
\$ 177,909	(\$ 6,317,226)
(\$ 76,129)	\$ 8,379,651
(\$ 76,129)	<u>\$ 9,070,910</u>
\$ -	\$ 941,313
\$ -	\$ 254,777
-	46,143
-	1,336,433
-	<u>19,004,166</u>
\$ -	\$20,641,519
\$ -	(\$ 98,563)
-	(2,192)
-	(1,007,813)
-	(<u>9,014,956</u>)
\$ -	(\$10,123,524)
\$ -	\$10,517,995
\$ -	<u>\$11,459,308</u>
\$ -	\$ 52,111
\$ -	\$ 608,113
-	<u>4,480,145</u>
\$ -	\$ 5,088,258
\$ -	(\$ 132,249)
-	(<u>726,642</u>)
\$ -	(\$ 858,891)
\$ -	\$ 4,229,367
\$ -	<u>\$ 4,281,478</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities:

General government and administration	\$ 52,144
Public works	298,113
Public safety	38,239
Recreation and parks	<u>113,784</u>

Total depreciation expense - Governmental activities \$ 502,280

Business-type activities:

Water	\$ 186,825
Sewer	101,240
Parking	108,541
Transit	<u>59,267</u>

Total depreciation expense - Business-type activities \$ 455,873

NOTE F - INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 38,010	Parking System	\$ 16,000
		Water	<u>22,010</u>
SUBTOTAL	<u>\$ 38,010</u>	SUBTOTAL	<u>\$ 38,010</u>
Major Street	<u>\$ 7,583</u>	Local Street	<u>\$ 7,583</u>
Revolving	<u>\$ 61,363</u>	Public Improvement	<u>\$ 61,363</u>
Public Improvement	\$ 72,245	Equipment	\$ 21,451
		Parking System	<u>50,794</u>
SUBTOTAL	<u>\$ 72,245</u>	SUBTOTAL	<u>\$ 72,245</u>
Sewage Disposal	\$ 28,961	Equipment	\$ 21,413
		Water	<u>7,548</u>
SUBTOTAL	<u>\$ 28,961</u>	SUBTOTAL	<u>\$ 28,961</u>
Equipment	\$ 469,412	General	\$ 70,514
		Transit	1,339
		Water	92,482
		Major Street	34,964
		Local Street	98,072
		Parking System	<u>172,041</u>
SUBTOTAL	<u>\$ 469,412</u>	SUBTOTAL	<u>\$ 469,412</u>
TOTALS	<u>\$ 677,574</u>	TOTALS	<u>\$ 677,574</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Short-term amounts owed between funds are classified as "Due to/from other funds".
The amounts of receivables and payables between primary government and component units at June 30, 2006 are as follows:

	<u>Receivable from Primary Government</u>	<u>Payable to Primary Government</u>		<u>Receivable from Component Unit</u>	<u>Payable to Component Unit</u>
Downtown Development Authority - General	\$ 1,539	\$ -	Tax Collection	\$ -	\$ 1,539
Tax Increment Finance Authority - General	\$ 88,769	\$ 8,915	Local Street Public Improvement Equipment	\$ 6,712 - 2,203 <u>\$ 8,915</u>	\$ - 88,769 - <u>\$ 88,769</u>
Brownfield Redevelopment Authority - General	\$ 15,383	\$ -	General	\$ -	\$ 15,383
TOTALS	<u>\$ 105,691</u>	<u>\$ 8,915</u>	TOTALS	<u>\$ 8,915</u>	<u>\$ 105,691</u>

NOTE G - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

	<u>Governmental</u>	<u>Business- Type</u>
At June 30, 2006 bonds payable consisted of the following individual issues:		
Water supply and sewage disposal system revenue bonds dated March 9, 1978, mature annually on February 1, 2007 through February 1, 2017, with interest at 5.00% per annum.	\$ -	\$ 93,000
Water supply and sewage disposal system revenue bonds dated March 6, 1980, mature annually on May 1, 2007 through May 1, 2019, with interest at 5.00 % per annum.	-	166,000
Water supply and sewage disposal system bonds dated December 1, 1996, mature annually on September 1, 2006 through September 1, 2017, with interest at 5.4525% per annum.	-	340,000
Water supply and sewage disposal system Junior Lien bonds dated October 18, 1995, mature annually on September 1, 2006 though September 1, 2035, with interest at 4.50% per annum.	-	4,032,000
Water supply and sewage disposal system Junior Lien bonds dated December 1, 1996, mature annually on September 1, 2006 through September 1, 2036, with interest at 4.50% per annum.	-	161,000
Sewage disposal limited tax general obligation bonds dated April 1, 1997, mature annually on October 1, 2006 through October 1, 2012.	-	210,000
Building Authority limited tax general obligation bonds dated September 1, 1997, mature annually on October 1, 2006 through October 1, 2017.	450,000	-
Limited tax general obligation bonds dated July 19, 2005, mature annually on November 1, 2006 through November 1, 2034, with interest at 4.25% per annum.	<u>2,000,000</u>	<u>-</u>
Total bonds payable	<u>\$ 2,450,000</u>	<u>\$5,002,000</u>

INSTALLMENT NOTE

1999 Rural Development Service Installment note dated April 21, 1999, matures annually on March 1, 2007 through March 1, 2014 with interest at 4.75% per annum.	\$ 90,000	\$ -
---	-----------	------

INSTALLMENT PURCHASE CONTRACTS

Building improvement installment contract with monthly payments of \$4,749.57 including interest beginning December 30, 2006 through May 30, 2021 with interest at 4.60% per annum, financed through Honeywell Global Finance, LLC.	\$ 590,873	\$ -
Ford Ranger Pickup loan with monthly payments of \$392.55 including interest through October, 2008 with interest at 3.0% per annum, financed through Wells Fargo Bank, a financial institution.	<u>10,597</u>	<u>-</u>
Total installment purchase contracts	<u>\$ 601,470</u>	<u>\$ -</u>

ECONOMIC DEVELOPMENT GRANT LOAN

Michigan CDBG Economic Development Grant Loan	<u>\$ 145,624</u>	<u>\$ -</u>
---	-------------------	-------------

The long-term portion of employee compensated absences, totalling \$184,275, and the Keyman Life Insurance retirement annuity, totalling \$43,692 are both paid through the Employee Benefits fund, and reported as governmental activity in the Government-Wide Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2006, are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 125,872	\$ 172,079	\$ 106,000	\$ 230,087
2008	157,096	140,993	115,000	224,771
2009	168,945	127,955	122,000	218,972
2010	173,764	120,055	129,000	212,869
2011	156,090	112,624	135,000	206,361
2012	134,514	106,280	148,000	199,289
2013	117,658	100,701	154,000	191,686
2014	144,282	94,694	126,000	184,774
2015	133,221	87,811	135,000	178,444
2016	110,252	82,144	139,000	171,736
2017	122,378	76,824	149,000	164,588
2018	124,604	71,160	145,000	157,053
2019	111,935	65,835	121,000	150,701
2020	114,375	60,845	110,000	145,044
2021-2038	<u>1,392,108</u>	<u>474,421</u>	<u>3,168,000</u>	<u>1,291,917</u>
	<u>\$3,287,094</u>	<u>\$1,894,421</u>	<u>\$5,002,000</u>	<u>\$3,928,292</u>

The individual long-term debt and other general long-term obligations of the City of Houghton and the changes therein, may be summarized as follows:

	<u>Balance</u> <u>06-30-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06-30-06</u>
<u>ENTERPRISE FUNDS</u>				
<u>REVENUE BONDS</u>				
Water Supply and Sewage Disposal System Bonds (1978)	\$ 99,000	\$ -	\$ 6,000	\$ 93,000
Water Supply and Sewage Disposal System Bonds (1980)	175,000	-	9,000	160,000
Water Supply and Sewage Disposal System Bonds (1996)	355,000	-	15,000	340,000
Junior Lien Water Supply and Sewage System Bonds (1995)	4,067,000	-	35,000	4,032,000
Junior Lien Water Supply and Sewage System Bonds (1997)	164,000	-	3,000	161,000
Sewage System Limited Obligation Revenue Bonds (1997)	<u>235,000</u>	<u>-</u>	<u>25,000</u>	<u>210,000</u>
	<u>\$5,095,000</u>	<u>\$ -</u>	<u>\$ 93,000</u>	<u>\$5,002,000</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

	<u>Balance</u> <u>06-30-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06-30-06</u>
<u>INTERNAL SERVICE FUND</u>				
INSTALLMENT PURCHASE CONTRACT				
Equipment	\$ 14,914	\$ -	\$ 4,317	\$ 10,597
LIMITED TAX INVESTMENT NOTE				
1999 Rural Development Service Loan	<u>99,000</u>	<u>-</u>	<u>9,000</u>	<u>90,000</u>
	<u>\$ 113,914</u>	<u>\$ -</u>	<u>\$ 13,317</u>	<u>\$ 100,597</u>
<u>LONG-TERM DEBT GROUP OF ACCOUNTS</u>				
GENERAL OBLIGATION BONDS				
Building Authority Bonds (1997)	\$ 535,000	\$ -	\$ 85,000	\$ 450,000
INSTALLMENT PURCHASE CONTRACT				
Building Improvements	-	590,873	-	590,873
LIMITED TAX GENERAL OBLIGATION BONDS				
Library Bonds	-	2,015,000	15,000	2,000,000
ECONOMIC DEVELOPMENT GRANT LOAN				
Michigan CDBG Economic Development Grant MSC 910052-EDIG (1992) including accrued interest	166,261	-	20,637	145,624
PROMISSORY NOTE				
Retirement annuity	<u>50,072</u>	<u>-</u>	<u>6,380</u>	<u>43,692</u>
	\$ 751,333	2,605,873	\$ 127,017	\$ 3,230,189
Accrued compensated absences payable	328,155	1,741	-	329,896
Less current portion, included in Employee Benefit Fund	<u>147,486</u>	<u>-</u>	<u>1,865</u>	<u>145,621</u>
	<u>\$ 932,002</u>	<u>\$ 2,607,614</u>	<u>\$ 125,152</u>	<u>\$ 3,414,464</u>
<u>TAX INCREMENT FINANCE AUTHORITY</u>				
TAX INCREMENT REVENUE BONDS				
Walmart Project	\$ 154,527	\$ -	\$ 49,044	\$ 105,483
LIMITED TAX DEVELOPMENT BONDS				
1994 TIFA Projects	70,000	-	70,000	-
1998 Refunding Bonds	910,000	-	10,000	900,000
1999 Tax Increment Bond	<u>450,000</u>	<u>-</u>	<u>15,000</u>	<u>435,000</u>
	<u>\$ 1,584,527</u>	<u>\$ -</u>	<u>\$ 144,044</u>	<u>\$ 1,440,483</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

	<u>Balance</u> <u>06-30-05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06-30-06</u>
<u>DOWNTOWN DEVELOPMENT AUTHORITY</u>				
LIMITED TAX DEVELOPMENT BONDS				
1994 DDA Projects - including accrued interest	\$ 927,490	\$ 58,242	\$ 100,000	\$ 885,732
1996 Building Authority Bonds	<u>85,000</u>	<u>-</u>	<u>10,000</u>	<u>75,000</u>
	<u>\$1,012,490</u>	<u>\$ 58,242</u>	<u>\$ 110,000</u>	<u>\$ 960,732</u>
<u>BROWNFIELD REDEVELOPMENT AUTHORITY</u>				
TAX INCREMENT REVENUE BONDS				
Former High School Project	\$ 339,748	\$ -	\$ 39,236	\$ 300,512
	<u>\$9,077,681</u>	<u>\$2,665,856</u>	<u>\$ 524,749</u>	<u>\$11,218,788</u>

1995 WATER AND SEWAGE SYSTEM JUNIOR LIEN REVENUE BONDS

Water and Sewage System Junior Lien Revenue Bonds (\$4,233,000 authorized, \$4,032,000 outstanding) dated October 18, 1995, mature annually on September 1, 2006 through September 1, 2035, with interest at 4.50% per annum.

<u>Due year ended June 30,</u>	<u>September 1</u>		<u>March 1</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	
2007	\$ 48,000	\$ 90,720	\$ 89,640	\$ 228,360
2008	50,000	89,640	88,515	228,155
2009	52,000	88,515	87,345	227,860
2010	57,000	87,345	86,062	230,407
2011	57,000	86,062	84,780	227,842
2012	60,000	84,780	83,430	228,210
2013	65,000	83,430	81,967	230,397
2014	70,000	81,968	80,392	232,360
2015	73,000	80,392	78,750	232,142
2016	75,000	78,750	77,063	230,813
2017	80,000	77,063	75,262	232,325
2018	85,000	75,262	73,350	233,612
2019	100,000	73,350	71,100	244,450
2020	105,000	71,100	68,738	244,838
2021	127,000	68,738	65,880	261,618
2022	135,000	65,880	62,842	263,722
2023	142,000	62,842	59,648	264,490
2024	149,000	59,648	56,295	264,943
2025	157,000	56,295	52,762	266,057
2026	164,000	52,762	49,073	265,835
2027	172,000	49,073	45,202	266,275
2028	182,000	45,202	41,108	268,310
2029	190,000	41,108	36,832	267,940
2030	200,000	36,832	32,333	269,165
2031	210,000	32,333	27,607	269,940
2032	222,000	27,607	22,613	272,220
2033	232,000	22,613	17,392	272,005
2034	245,000	17,392	11,880	274,272
2035	258,000	11,880	6,075	275,955
2036	<u>270,000</u>	<u>6,075</u>	<u>-</u>	<u>276,075</u>
	<u>\$4,032,000</u>	<u>\$1,804,657</u>	<u>\$1,713,936</u>	<u>\$7,550,593</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM KDEBT (CONTINUED)

1995 WATER AND SEWAGE SYSTEM JUNIOR LIEN REVENUE BONDS (CONTINUED)

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS OF 1978

Water Supply and Sewage Disposal System Revenue Bonds (denomination \$1,000 each, \$188,000 originally issued, \$93,000 outstanding) dated March 9, 1978, mature annually on February 1, 2007 through February 1, 2017, with interest at 5.00% per annum.

<u>Due year ended June 30,</u>	<u>August 1</u> <u>Interest</u>	<u>February 1</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 2,325	\$ 7,000	\$ 2,325	\$ 11,650
2008	2,150	7,000	2,150	11,300
2009	1,975	7,000	1,975	10,950
2010	1,800	8,000	1,800	11,600
2011	1,600	8,000	1,600	11,200
2012	1,400	8,000	1,400	10,800
2013	1,200	9,000	1,200	11,400
2014	975	9,000	975	10,950
2015	750	10,000	750	11,500
2016	500	10,000	500	11,000
2017	250	10,000	250	10,500
	<u>\$ 14,925</u>	<u>\$ 93,000</u>	<u>\$ 14,925</u>	<u>\$122,850</u>

Bonds are subject to redemption prior to maturity, at the option of the City, in inverse numerical order, on any interest payment dates, at par and accrued interest to date of redemption, upon thirty days written notice to the registered bond holder.

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES II OF 1980

Water Supply and Sewage Disposal System Revenue Bonds (denomination \$1,000 each, \$300,000 authorized, \$166,000 outstanding) dated March 6, 1980, mature annually on May 1, 2007 through May 1, 2019, with interest at 5.00% per annum.

<u>Due year ended June 30,</u>	<u>November 1</u> <u>Interest</u>	<u>May 1</u> <u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 4,150	\$ 9,000	\$ 4,150	\$ 17,300
2008	3,925	10,000	3,925	17,850
2009	3,675	10,000	3,675	17,350
2010	3,425	11,000	3,425	17,850
2011	3,150	12,000	3,150	18,300
2012	2,850	12,000	2,850	17,700
2013	2,550	12,000	2,550	17,100
2014	2,250	13,000	2,250	17,500
2015	1,925	14,000	1,925	17,850
2016	1,575	15,000	1,575	18,150
2017	1,200	15,000	1,200	17,400
2018	825	16,000	825	17,650
2019	425	17,000	425	17,850
	<u>\$ 31,925</u>	<u>\$116,000</u>	<u>\$ 31,925</u>	<u>\$229,850</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1997 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BOND

Water Supply and Sewage Disposal System Junior Lien Revenue Bond (\$180,000 originally issued and \$161,000 outstanding) dated December 1, 1996, mature annually on September 1, 2006 through September 1, 2036, with interest at 4.50% per annum.

Due year ended June 30,	September 1 Principal	September 1 Interest	March 1 Interest	Total
2007	\$ 2,000	\$ 3,652	\$ 3,548	\$ 9,200
2008	3,000	3,607	3,491	10,098
2009	3,000	3,529	3,414	9,943
2010	3,000	3,471	3,347	9,818
2011	3,000	3,403	3,280	9,683
2012	3,000	3,335	3,222	9,557
2013	3,000	3,258	3,146	9,404
2014	4,000	3,199	3,057	10,256
2015	3,000	3,108	2,990	9,098
2016	4,000	3,040	2,909	9,949
2017	4,000	2,941	2,812	9,753
2018	4,000	2,858	2,723	9,581
2019	4,000	2,768	2,633	9,401
2020	5,000	2,677	2,529	10,206
2021	4,000	2,556	2,433	8,989
2022	5,000	2,473	2,321	9,794
2023	5,000	2,359	2,209	9,568
2024	5,000	2,246	2,103	9,349
2025	6,000	2,127	1,963	10,090
2026	6,000	1,996	1,830	9,826
2027	6,000	1,860	1,696	9,556
2028	6,000	1,724	1,566	9,290
2029	7,000	1,584	1,405	9,989
2030	7,000	1,429	1,250	9,679
2031	7,000	1,270	1,094	9,364
2032	8,000	1,112	917	10,029
2033	8,000	928	736	9,664
2034	8,000	749	557	9,306
2035	9,000	567	357	9,924
2036	9,000	363	157	9,520
2037	7,000	158	-	7,158
	<u>\$161,000</u>	<u>\$ 70,347</u>	<u>\$ 65,695</u>	<u>\$297,042</u>

Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the City's option, on any interest payment date on or after September 1, 1997, at par and accrued interest to the date fixed for prepayment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS OF 1996

Water Supply and Sewage Disposal System Bonds (denomination \$1,000 each, \$400,000 originally issued, and \$340,000 outstanding), dated December 1, 1996, mature annually on September 1, 2006 through September 1, 2017, with interest at 5.4525% per annum.

Due year ended June 30,	September 1 Principal	September 1 Interest	March 1 Interest	Total
2007	\$ 15,000	\$ 9,513	\$ 9,141	\$ 33,654
2008	20,000	9,141	8,636	37,777
2009	20,000	8,636	8,121	36,757
2010	20,000	8,121	7,596	35,717
2011	25,000	7,596	6,928	39,524
2012	30,000	6,928	6,110	43,038
2013	30,000	6,110	5,277	41,387
2014	30,000	5,278	4,430	39,708
2015	35,000	4,430	3,424	42,854
2016	35,000	3,424	2,400	40,824
2017	40,000	2,400	1,210	43,610
2018	40,000	1,210	-	41,210
	<u>\$340,000</u>	<u>\$ 72,787</u>	<u>\$ 63,273</u>	<u>\$476,060</u>

Bonds maturing through 2006 are not subject to redemption prior to maturity. Bonds maturing 2007 through 2017 are subject to redemption prior to maturity at the option of the City on any interest payment date on or after September 1, 2006.

1997 LIMITED TAX GENERAL OBLIGATION BONDS

Limited Tax General Obligation Bonds (\$360,000 originally issued and \$210,000 outstanding), dated April 1, 1997, mature annually on October 1, 2006 through October 1, 2012.

Year ended June 30,	Interest Rate - % Per Annum	October 1 Principal	October 1 Interest	April 1 Interest	Total
2007	5.30	\$ 25,000	\$ 5,793	\$ 5,130	\$ 35,923
2008	5.35	25,000	5,130	4,461	34,591
2009	5.40	30,000	4,461	3,651	38,112
2010	5.50	30,000	3,651	2,826	36,477
2011	5.60	30,000	2,826	1,986	34,812
2012	5.65	35,000	1,986	998	37,984
2013	5.70	35,000	998	-	35,998
		<u>\$210,000</u>	<u>\$ 24,845</u>	<u>\$ 19,052</u>	<u>\$253,897</u>

Bonds maturing in the years through 2008, shall be subject to redemption prior to maturity, at the option of the City, on any interest payment date on or after October 1, 2007, at par and accrued interest plus a premium as follows:

1% of par value on each bond called for redemption from October 1, 2007, but prior to October 1, 2008.

No premiums shall be paid on bonds called for redemption after October 1, 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1997 BUILDING AUTHORITY AND BUILDING AUTHORITY REFUNDING BONDS

Limited Tax General Obligation Bonds (\$955,000 originally issued and \$450,000 outstanding), dated September 1, 1997, mature annually on October 1, 2006 through October 1, 2017.

Due year ended	Interest Rate - %	October 1		April 1	Total
<u>June 30,</u>	<u>Per Annum</u>	<u>Principal</u>	<u>Interest</u>	<u>Interest</u>	
2007	5.00	\$ 55,000	\$ 11,851	\$ 10,476	\$ 77,327
2008	5.10	60,000	10,476	8,946	79,422
2009	5.15	60,000	8,946	7,401	76,347
2010	5.20	65,000	7,401	5,711	78,112
2011	5.30	45,000	5,711	4,519	55,230
2012	5.35	15,000	4,519	4,118	23,637
2013	5.40	15,000	4,118	3,713	22,831
2014	5.50	40,000	3,713	2,612	46,325
2015	5.50	40,000	2,612	1,513	44,125
2016	5.50	15,000	1,513	1,100	17,613
2017	5.50	20,000	1,100	550	21,650
2018	5.50	20,000	550	-	20,550
		<u>\$ 450,000</u>	<u>\$ 62,510</u>	<u>\$ 50,659</u>	<u>\$ 563,169</u>

Bonds of this issue maturing through 2007, are not subject to redemption prior to maturity.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing on or after October 1, 2008, are subject to redemption prior to maturity, at the option of the Authority, in such order of maturity as the Authority shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2007, at par plus accrued interest to the date fixed for redemption.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

2005 GENERAL OBLIGATION LIMITED TAX BONDS

Limited Tax General Obligation Bonds (\$2,015,000 originally issued and \$2,000,000 outstanding), dated July 19, 2005, mature annually on November 1, 2006 through November 1, 2034 with an interest rate of 4.25% per annum.

Due year ended June 30,	November 1 Principal	Interest	May 1 Interest	Total
2007	\$ 35,000	\$ 42,500	\$ 41,756	\$ 119,256
2008	35,000	41,756	41,013	117,769
2009	40,000	41,013	40,163	121,176
2010	40,000	40,163	39,313	119,476
2011	40,000	39,313	38,463	117,776
2012	45,000	38,463	37,506	120,969
2013	45,000	37,506	36,550	119,056
2014	50,000	36,550	35,488	122,038
2015	50,000	35,488	34,425	119,913
2016	50,000	34,425	33,363	117,788
2017	55,000	33,363	32,194	120,557
2018	55,000	32,194	31,025	118,219
2019	60,000	31,025	29,750	120,775
2020	60,000	29,750	28,475	118,225
2021	65,000	28,475	27,094	120,569
2022	70,000	27,094	25,606	122,700
2023	70,000	25,606	24,119	119,725
2024	75,000	24,119	22,525	121,644
2025	75,000	22,525	20,931	118,454
2026	80,000	20,931	19,231	120,162
2027	85,000	19,231	17,425	121,656
2028	85,000	17,425	15,619	118,044
2029	90,000	15,619	13,706	119,325
2030	95,000	13,706	11,688	120,394
2031	100,000	11,688	9,563	121,251
2032	105,000	9,563	7,331	121,894
2033	110,000	7,331	4,994	122,325
2034	115,000	4,994	2,550	122,544
2035	120,000	2,550	-	122,550
	<u>\$2,000,000</u>	<u>\$ 764,366</u>	<u>\$ 721,866</u>	<u>\$3,486,232</u>

Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the City's option, on any date on or after November 1, 2005, at par plus accrued interest to the date fixed for prepayment.

1996 BUILDING AUTHORITY BONDS

Building Authority Bonds (\$150,000 originally issued and \$75,000 outstanding) dated October 1, 1996, mature annually on October 1, 2006 through October 1, 2011.

Due year ended June 30,	Interest Rate - % Per Annum	October 1 Principal	Interest	April 1 Interest	Total
2007	5.40	\$ 10,000	\$ 2,123	\$ 1,852	\$ 13,975
2008	5.50	10,000	1,852	1,578	13,430
2009	5.60	10,000	1,578	1,297	12,875
2010	5.70	15,000	1,297	870	17,167
2011	5.75	15,000	870	439	16,309
2012	5.85	15,000	439	-	15,439
		<u>\$ 75,000</u>	<u>\$ 8,195</u>	<u>\$ 6,036</u>	<u>\$ 89,195</u>

Bonds maturing through 2006 are not subject to redemption prior to maturity. Bonds maturing in the year 2007 and thereafter shall be subject to redemption prior to maturity at the option of the Building Authority on any interest payment date on or after October 1, 2006 at par and accrued interest to the date of redemption.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG TERM DEBT (CONTINUED)

DOWNTOWN DEVELOPMENT BOND (LIMITED TAX GENERAL OBLIGATION)

Downtown Development Authority Bonds (\$412,989 originally issued and outstanding) dated December 21, 1994, mature annually on May 1, 2007, through May 1, 2014.

Due year ended June 30,	Interest Rate - % Per Annum	May 1		Total
		Principal	Interest	
2007	6.55	\$ 45,082	\$ 54,918	\$ 100,000
2008	6.65	43,811	61,189	105,000
2009	6.75	38,543	61,457	100,000
2010	6.80	35,801	64,199	100,000
2011	6.80	68,644	136,356	205,000
2012	6.85	63,667	141,333	205,000
2013	6.85	60,972	149,028	210,000
2014	6.90	56,469	153,531	210,000
		<u>\$412,989</u>	<u>\$ 822,011</u>	<u>\$1,235,000</u>

The Bond is not subject to redemption prior to maturity.

MICHIGAN CDBG ECONOMIC DEVELOPMENT GRANT LOAN

On April 8, 1992 the City of Houghton accepted Michigan CDBG Economic Development Grant MSC 910052-EDIG (\$200,000 received and \$145,624 including accrued interest outstanding as of June 30, 2006) for the Midwest Loan Services, Inc. Commercial Rehabilitation Project. The City must remit two-thirds of the monthly rent payment from Midwest Loan Services, Inc. To the State of Michigan until the entire grant amount, plus 3% annual interest, has been repaid.

INSTALLMENT PURCHASE CONTRACT

Building improvement installment purchase contract with Honeywell Global Finance, LLC. (\$588,617 originally received and \$590,873 including accrued interest outstanding) dated May 30, 2006. Monthly payments of \$4,749.57 begin December 30, 2006 through May 30, 2021 with interest to accrue at 4.60% per annum.

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

TAX INCREMENT REVENUE BOND - WALMART PROJECT

City of Houghton Tax Increment Finance Authority Tax Increment Revenue Bond (\$512,188 originally issued, \$105,483 outstanding) dated June 23, 1993 matures annually on February 15, 2007 through February 15, 2014, with interest at the rate of 6.50% per annum.

The annual installment amount is equal to the greater of eighty percent of the Developer Tax Increment Revenues due to be collected by the Authority during the previous calendar year, or the principal shown on the following schedule of minimum annual installments plus accrued interest:

<u>Due year ended June 30,</u>	<u>February 15, Principal</u>
2007	\$ 15,000
2008	15,000
2009	20,000
2010	20,000
2011	20,000
2012	15,483
	<u>\$105,483</u>

Annual installments shall be applied first to accrued interest and then principal until the outstanding balance is paid in full.

This bond is subject to prepayment in whole or in part prior to maturity at the option of the Authority on any date at par plus accrued interest to the date of redemption.

This Bond is subject to prepayment in whole or in part prior to maturity at the the option of the bondholder on a date two years from notice to the Authority that the bondholder reasonably demonstrates that principal of and interest on this Bond can be paid in full within two years from bondholder Tax Increment Revenues to be collected by the Authority during the period of time commencing on the date of said notice and ending on the redemption date.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

1998 LIMITED TAX DEVELOPMENT REFUNDING BONDS

City of Houghton Tax Incremental Finance Authority Limited Tax Development Refunding Bonds (\$975,000 originally issued and \$900,000 outstanding) dated May 1, 1998 mature annually on November 1, 2006 through November 1, 2014.

Due Year ended <u>June 30,</u>	Interest Rate - % <u>Per Annum</u>	<u>November 1</u>		<u>May 1</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	<u>Interest</u>		
2007	4.65	\$ 80,000	\$ 22,364	\$ 20,503		\$ 122,867
2008	4.80	85,000	20,503	18,464		123,967
2009	4.80	90,000	18,464	16,304		124,768
2010	5.00	90,000	16,304	14,054		120,358
2011	5.00	100,000	14,054	11,553		125,607
2012	5.00	105,000	11,553	8,929		125,482
2013	5.05	110,000	8,929	6,151		125,080
2014	5.10	115,000	6,151	3,219		124,370
2015	5.15	125,000	3,219	-		128,219
		<u>\$ 900,000</u>	<u>\$121,541</u>	<u>\$ 99,177</u>		<u>\$1,120,718</u>

Bonds of this issue are subject to redemption prior to maturity on any date on or after November 1, 2007, in whole or in part without any premium or penalty, plus accrued interest thereon to the date fixed for redemption.

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

1999 LIMITED TAX GENERAL OBLIGATION BONDS

City of Houghton Tax Incremental Finance Authority Limited Tax General Obligation Bonds (\$500,000 originally issued, \$435,000 outstanding) dated October 1, 1999, mature annually on May 1, 2007 through May 1, 2019.

Year ended <u>June 30,</u>	Interest Rate - % <u>Per Annum</u>	<u>November 1</u>		<u>May 1</u>		<u>Total</u>
		<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2007	5.20	\$ 12,615	\$ 20,000	\$ 12,615		\$ 45,230
2008	5.30	12,095	20,000	12,095		44,190
2009	5.40	11,565	20,000	11,565		43,130
2010	5.50	11,025	25,000	11,025		47,050
2011	5.60	10,338	25,000	10,337		45,675
2012	5.70	9,638	30,000	9,637		49,275
2013	5.80	8,783	30,000	8,782		47,565
2014	5.90	7,913	35,000	7,912		50,825
2015	5.90	6,880	40,000	6,880		53,760
2016	6.00	5,700	40,000	5,700		51,400
2017	6.00	4,500	45,000	4,500		54,000
2018	6.00	3,150	50,000	3,150		56,300
2019	6.00	1,650	55,000	1,650		58,300
		<u>\$ 105,852</u>	<u>\$435,000</u>	<u>\$105,848</u>		<u>\$ 646,700</u>

Bonds of this issue maturing on or before May 1, 2008, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing on or after May 1, 2009 shall be subject to redemption without a premium, at the option of the Authority, in such order as the Authority shall determine and within any maturity by lot, on any interest payment date on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1999 RURAL DEVELOPMENT SERVICE INSTALLMENT NOTE (LIMITED TAX GENERAL OBLIGATION)

Installment note (\$145,000 originally issued and \$90,000 outstanding) dated April 21, 1999, mature annually on March 1, 2007 through March 1, 2014 with interest at 4.75% per annum.

Due					
Year ended	September 1	March 1			
<u>June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2007	\$ 2,155	\$ 10,000	\$ 2,120	\$ 14,275	
2008	1,916	10,000	1,890	13,806	
2009	1,672	10,000	1,648	13,320	
2010	1,437	11,000	1,413	13,850	
2011	1,173	11,000	1,154	13,327	
2012	910	12,000	898	13,808	
2013	621	13,000	612	14,233	
2014	311	13,000	306	13,617	
	<u>\$ 10,195</u>	<u>\$ 90,000</u>	<u>\$ 10,041</u>	<u>\$ 110,236</u>	

CITY OF HOUGHTON BROWNFIELD REDEVELOPMENT AUTHORITY

TAX INCREMENTAL REVENUE LOAN - FORMER HOUGHTON HIGH SCHOOL PROJECT

City of Houghton Brownfield Redevelopment Authority Tax Incremental Revenue Loan (\$425,000 original proceeds and \$300,512 outstanding principal) dated October 3, 1998, matures annually on October 3, 2006 through October 3, 2012 with interest at the rate of 2.25% per annum. The loan is financed through the Michigan Department of Environmental Quality.

Due			
Year ended	October 3		
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 40,118	\$ 6,762	\$ 46,880
2008	41,021	5,859	46,880
2009	41,944	4,936	46,880
2010	42,888	3,992	46,880
2011	43,853	3,027	46,880
2012	44,840	2,040	46,880
2013	45,848	1,032	46,880
	<u>\$ 300,512</u>	<u>\$ 27,648</u>	<u>\$ 328,160</u>

Interest did not accrue between October 3, 1998 and October 3, 2003.

NOTE H - SEGMENT INFORMATION

Generally accepted accounting principles require disclosure of segment information for certain individual Enterprise Funds. The City maintains four Enterprise Funds: the Water Supply Fund, the Sewage Disposal System Fund, the Parking System Fund, and the Transit Fund.

The Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City is that cost of providing the goods and services to the general public on a continuing basis will be financed or recovered through user charges. The City has four Enterprise Funds as follows:

Water Fund and Sewer Fund - to account for the provision of water and sewer services to the residents of the City. Activities of the funds include administration, operation and maintenance of the water and sewer system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for Water and Sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Parking Fund - to account for operation of the City's parking decks, including administration, operation and maintenance. The majority of costs are financed through parking fees and fines.

Transit Fund - to account for operation of the City's transit service, including administration, operation and maintenance. Costs are financed through fees charged to users and State and Federal Grants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - SEGMENT INFORMATION (CONTINUED)

Selected financial information for business segments of enterprise funds for the year ended June 30, 2006, is presented as follows:

	<u>Water Supply Fund</u>	<u>Sewage Disposal System Fund</u>
<u>CONDENSED STATEMENT OF NET ASSETS</u>		
Assets:		
Current assets	\$ 97,581	\$ 525,712
Interfund receivable	-	28,961
Capital assets	5,899,344	3,096,748
Other assets	<u>325,612</u>	<u>40,157</u>
Total assets	<u>\$6,322,537</u>	<u>\$3,691,578</u>
Liabilities:		
Interfund payables	\$ 122,040	\$ -
Other current liabilities	154,636	66,542
Noncurrent liabilities	<u>4,386,000</u>	<u>510,000</u>
Total liabilities	<u>\$4,622,676</u>	<u>\$ 576,542</u>
Net assets:		
Invested in capital assets, net of related debt	\$1,447,344	\$2,546,748
Restricted for debt service	259,377	30,918
Unrestricted	<u>(46,860)</u>	<u>537,370</u>
Total net assets	<u>\$1,659,861</u>	<u>\$3,115,036</u>
<u>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</u>		
Operating revenues	\$ 720,486	\$1,538,132
Depreciation expense	(186,825)	(101,240)
Other operating expenses	<u>(413,892)</u>	<u>(1,426,971)</u>
Operating income	\$ 119,769	\$ 9,921
Nonoperating revenues (expenses):		
Investment income (loss)	6,181	9,038
Operating grants	-	-
Interest expense	(202,301)	(31,080)
Service grants	-	-
Capital contributions	-	-
Transfers in (out)	<u>-</u>	<u>-</u>
Change in net assets	(\$ 76,351)	(\$ 12,121)
Beginning net assets	<u>1,736,212</u>	<u>3,127,157</u>
Ending net assets	<u>\$1,659,861</u>	<u>\$3,115,036</u>
<u>CONDENSED STATEMENT OF CASH FLOWS</u>		
Net cash provided (used) by:		
Operating activities	\$ 299,734	\$ 127,390
Noncapital financing activities	(5,854)	61,717
Capital and related financing activities	(309,559)	(113,643)
Investing activities	<u>6,181</u>	<u>9,038</u>
Net increase (decrease)	(\$ 9,498)	\$ 84,502
Beginning cash and cash equivalents	<u>15,338</u>	<u>250,048</u>
Ending cash and cash equivalents	<u>\$ 5,840</u>	<u>\$ 334,550</u>

<u>Parking System Fund</u>	<u>Transit Fund</u>	<u>Total</u>
\$ 4,876	\$ 28,451	\$ 656,620
-	-	28,961
2,119,718	343,497	11,459,307
-	-	365,769
<u>\$2,124,594</u>	<u>\$ 371,948</u>	<u>\$12,510,657</u>
\$ 238,835	\$ 1,339	\$ 362,214
2,492	46,642	270,312
-	-	4,896,000
<u>\$ 241,327</u>	<u>\$ 47,981</u>	<u>\$ 5,528,526</u>
\$2,119,718	\$ 343,497	\$ 6,457,307
-	-	290,295
(236,451)	(19,530)	234,529
<u>\$1,883,267</u>	<u>\$ 323,967</u>	<u>\$ 6,982,131</u>
\$ 106,460	\$ 103,527	\$ 2,468,605
(108,544)	(59,267)	(455,876)
(177,873)	(400,043)	(2,418,779)
(\$ 179,957)	(\$ 355,783)	(\$ 406,050)
15	19	15,253
-	268,747	268,747
-	(103)	(233,484)
-	(43,207)	(43,207)
-	82,030	82,030
<u>30,000</u>	<u>72,580</u>	<u>102,580</u>
(\$ 149,942)	\$ 24,283	(\$ 214,131)
<u>2,033,209</u>	<u>299,684</u>	<u>7,196,262</u>
<u>\$1,883,267</u>	<u>\$ 323,967</u>	<u>\$ 6,982,131</u>
(\$ 79,120)	(\$ 299,779)	\$ 48,225
78,193	308,272	442,328
-	(15,050)	(438,252)
<u>15</u>	<u>19</u>	<u>15,253</u>
(\$ 912)	(\$ 6,538)	\$ 67,554
<u>5,152</u>	<u>15,323</u>	<u>285,861</u>
<u>\$ 4,240</u>	<u>\$ 8,785</u>	<u>\$ 353,415</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - SEGMENT INFORMATION (CONTINUED)

The balances of the restricted asset accounts in the Enterprise Funds are revenue bond reserves totalling \$365,769.

NOTE I - RISK MANAGEMENT

The City of Houghton is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City of Houghton has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE J - PENSION AND POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides pension benefits for all of its full-time employees through a money purchase plan. In a money purchase plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The agreement requires that the City contribute an amount equal to 15.054% of the employee's base salary each month. The city's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before the three years of service are used to reduce the City's current period contribution requirement.

The City's total payroll in fiscal year ending June 30, 2006 was \$1,672,908. The City's contributions were calculated using the base salary amount of \$1,248,505. The City made the required contribution of \$187,950.

Plan participants may borrow up to 50% of the amount vested in their plan. Loans must be paid back through payroll check deductions. The length of the loan can vary from one to five years and the interest rate is set by the Pension Board. Interest is currently set at 9.5%. Loans for up to twenty years can be made for the purchase of a new home or to refinance their current home mortgage. The interest rate on these loans is currently set at 7.75%.

NOTE K - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits them to defer until future years up to 33 1/3% of annual gross earnings not to exceed \$7,500. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The City neither acts as trustee nor has any management involvement in the plan.

The plan does not meet the reporting criteria defined in NCGA Statement 1, paragraph 26 (3) (8), consequently its financial statements are not presented herein.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOUGHTON, MICHIGAN
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$1,102,000	\$1,102,000	\$1,020,890	(\$ 81,110)
Licenses and permits	4,150	4,150	1,090	(3,060)
State grants	858,300	869,500	875,683	6,183
Interest	30,000	52,000	35,921	(16,079)
Charges for services	797,800	727,600	703,871	(23,729)
Other revenues	46,500	74,500	118,689	44,189
TOTAL REVENUES	<u>\$2,838,750</u>	<u>\$2,829,750</u>	<u>\$2,756,144</u>	<u>(\$ 73,606)</u>
Expenditures:				
General government administration	\$ 667,005	\$ 665,955	\$ 879,954	(\$ 213,999)
Public safety	785,630	785,630	757,752	27,878
Public works	615,825	581,975	606,379	(24,404)
Recreation and parks	197,900	2,233,900	2,295,413	(61,513)
Debt service	25,200	25,200	25,386	(186)
Other expenditures	254,990	85,100	109,285	(24,185)
TOTAL EXPENDITURES	<u>\$2,546,550</u>	<u>\$4,377,760</u>	<u>\$4,674,169</u>	<u>(\$ 296,409)</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ 292,200</u>	<u>(\$1,548,010)</u>	<u>(\$1,918,025)</u>	<u>(\$ 370,015)</u>
Other financing sources(uses):				
Proceeds from long-term debt	\$ -	\$2,015,000	\$2,603,617	\$ 588,617
Operating transfers out	(290,200)	(290,200)	(372,237)	(82,037)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(\$ 290,200)</u>	<u>\$1,724,800</u>	<u>\$2,231,380</u>	<u>\$ 506,580</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>\$ 2,000</u>	<u>\$ 176,790</u>	<u>\$ 313,355</u>	<u>\$ 136,565</u>
Fund balance, July 1	<u>966,786</u>	<u>966,786</u>	<u>966,786</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 968,786</u></u>	<u><u>\$1,143,576</u></u>	<u><u>\$1,280,141</u></u>	<u><u>\$ 136,565</u></u>

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN
 MAJOR STREET AND TRUNKLINE MAINTENANCE FUND
 BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State grants	\$ 425,000	\$ 425,000	\$ 423,145	(\$ 1,855)
Interest and rents	<u>1,000</u>	<u>1,000</u>	<u>4,654</u>	<u>3,654</u>
TOTAL REVENUES	<u>\$ 426,000</u>	<u>\$ 426,000</u>	<u>\$ 427,799</u>	<u>\$ 1,799</u>
Expenditures:				
General government administration	\$ 28,285	\$ 28,285	\$ 37,008	(\$ 10,723)
Public works:				
Construction	18,070	18,070	-	18,070
Routine maintenance	41,875	41,875	45,995	(4,120)
Traffic services	3,450	3,450	4,715	(1,265)
Snow and ice control	271,500	271,500	221,058	50,442
Roadway inspections	23,400	23,400	24,020	(620)
Other expenditures	<u>65,000</u>	<u>65,000</u>	<u>-</u>	<u>65,000</u>
TOTAL EXPENDITURES	<u>\$ 449,580</u>	<u>\$ 449,580</u>	<u>\$ 332,796</u>	<u>\$ 116,784</u>
EXCESS OF REVENUES (EXPENDITURES) NOT INCLUDING STATE TRUNK LINE MAINTENANCE	<u>(\$ 23,580)</u>	<u>(\$ 23,580)</u>	<u>\$ 95,003</u>	<u>\$ 118,583</u>
State trunkline maintenance - Excess of revenues (expenditures)	<u>\$ 46,580</u>	<u>\$ 46,580</u>	<u>\$ 11,925</u>	<u>(\$ 34,655)</u>
Other financing sources (uses) - Operating transfers in (out)	<u>(\$ 23,000)</u>	<u>(\$ 25,000)</u>	<u>(\$ 25,000)</u>	<u>\$ -</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>\$ -</u>	<u>(\$ 2,000)</u>	<u>\$ 81,928</u>	<u>\$ 83,928</u>
Fund balance, July 1	<u>111,755</u>	<u>111,755</u>	<u>111,755</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 111,755</u>	<u>\$ 109,755</u>	<u>\$ 193,683</u>	<u>\$ 83,928</u>

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN
LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 108,000	\$ 108,000	\$ 124,662	\$ 16,662
State grants	240,000	240,000	259,659	19,659
Interest and rents	500	500	2,690	2,190
Other	-	-	1,371	1,371
TOTAL REVENUES	<u>\$ 348,500</u>	<u>\$ 348,500</u>	<u>\$ 388,382</u>	<u>\$ 39,882</u>
Expenditures:				
General government administration	\$ 25,950	\$ 25,950	\$ 31,407	(\$ 5,457)
Public works:				
Construction	-	7,100	-	7,100
Routine maintenance	63,100	63,100	81,342	(18,242)
Traffic services	7,450	7,450	12,943	(5,493)
Snow and ice removal	235,000	235,000	245,658	(10,658)
Other expenditures	<u>40,000</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
TOTAL EXPENDITURES	<u>\$ 371,500</u>	<u>\$ 378,600</u>	<u>\$ 371,350</u>	<u>\$ 7,250</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>(\$ 23,000)</u>	<u>(\$ 30,100)</u>	<u>\$ 17,032</u>	<u>\$ 47,132</u>
Other financing sources (uses) -				
Operating transfers in	<u>\$ 23,000</u>	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES) AND OTHER USES)	<u>\$ -</u>	<u>(\$ 5,100)</u>	<u>\$ 42,032</u>	<u>\$ 47,132</u>
Fund balance, July 1	<u>417</u>	<u>417</u>	<u>417</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 417</u></u>	<u><u>(\$ 4,683)</u></u>	<u><u>\$ 42,449</u></u>	<u><u>\$ 47,132</u></u>

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN
 REVOLVING FUND
 BUDGETARY COMPARISON SCHEDULE
 Year ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance With Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest and rents	\$ -	\$ -	\$ 8,299	\$ 8,299
Other revenue -				
Loan repayments	<u>43,461</u>	<u>43,461</u>	<u>49,073</u>	<u>5,612</u>
TOTAL REVENUES	\$ 43,461	\$ 43,461	\$ 57,372	\$ 13,911
Expenditures -				
General government administration	<u>1,100</u>	<u>1,100</u>	<u>1,161</u>	(<u>61</u>)
EXCESS OF REVENUES (EXPENDITURES)	\$ 42,361	\$ 42,361	\$ 56,211	\$ 13,850
Fund balance, July 1	<u>166,830</u>	<u>166,830</u>	<u>166,830</u>	<u>-</u>
TOTAL FUND BALANCE, JUNE 30	<u>\$209,191</u>	<u>\$209,191</u>	<u>\$223,041</u>	<u>\$ 13,850</u>

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
Year ended June 30, 2006

BUDGETARY INFORMATION

A draft of the budget is prepared by the City Manager. The budget is then finalized during a series of budget work sessions with the City Council. When the budget is finalized, a public hearing is held and the Council adopts the budget legally. This usually occurs in June before the beginning of the fiscal year but the budget may be amended at any time throughout the year. The budget is prepared on a basis that is consistent with generally accepted accounting principles, thus no reconciliation between the budget basis and GAAP basis is necessary.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

<u>Fund</u>	Budget <u>Appropriation</u>	Actual <u>Expenditures</u>
General	\$ 4,667,960	\$ 5,046,406
Revolving	1,100	1,161

ADDITIONAL FINANCIAL INFORMATION

FINANCIAL STATEMENTS OF INDIVIDUAL FUNDS

CITY OF HOUGHTON, MICHIGAN

GENERAL FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 894,963	\$ 546,446
Accounts receivable	54,994	71,353
Inventory	3,388	7,757
Taxes receivable	44,964	45,614
Due from other governmental units	103,684	104,280
Due from other funds	38,010	77,428
Due from component units	-	4,000
TOTAL CURRENT ASSETS	<u>\$1,140,003</u>	<u>\$ 856,878</u>
<u>OTHER ASSETS</u>		
Long-term loan	\$ 78,302	\$ 90,402
Investments	<u>325,214</u>	<u>372,414</u>
TOTAL OTHER ASSETS	<u>\$ 403,516</u>	<u>\$ 462,816</u>
	<u>\$1,543,519</u>	<u>\$1,319,694</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 67,165	\$ 58,114
Accrued expenses	23,017	64,938
Due to other funds	70,514	107,595
Due to component units	<u>15,383</u>	<u>15,483</u>
TOTAL CURRENT LIABILITIES	<u>\$ 176,079</u>	<u>\$ 246,130</u>
<u>OTHER LIABILITIES</u>		
Deferred revenues	<u>87,299</u>	<u>106,778</u>
TOTAL LIABILITIES	<u>\$ 263,378</u>	<u>\$ 352,908</u>
<u>FUND BALANCE</u>		
Unreserved	\$1,276,753	\$ 959,029
Reserved	<u>3,388</u>	<u>7,757</u>
TOTAL FUND BALANCE	<u>\$1,280,141</u>	<u>\$ 966,786</u>
	<u>\$1,543,519</u>	<u>\$1,319,694</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Comparative Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>			<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual</u>
Revenues:				
Taxes	\$1,102,000	\$1,020,890	(\$ 81,110)	\$ 943,560
Licenses and permits	4,150	1,090	(3,060)	1,275
State grants	869,500	875,683	6,183	860,455
Interest	52,000	35,921	(16,079)	54,149
Charges for services	727,600	703,871	(23,729)	773,925
Other revenues	74,500	118,689	44,189	66,753
TOTAL REVENUES	<u>\$2,829,750</u>	<u>\$2,756,144</u>	<u>(\$ 73,606)</u>	<u>\$2,700,117</u>
Expenditures:				
General government administration	\$ 665,955	\$ 879,954	(\$ 213,999)	\$ 687,106
Public safety	785,630	757,752	27,878	751,290
Public works	581,975	606,379	(24,404)	633,848
Recreation and parks	2,233,900	2,295,413	(61,513)	228,306
Debt service	25,200	25,386	(186)	25,386
Other expenditures	85,100	109,285	(24,185)	93,003
TOTAL EXPENDITURES	<u>\$4,377,760</u>	<u>\$4,674,169</u>	<u>(\$ 296,409)</u>	<u>\$2,418,939</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>(\$1,548,010)</u>	<u>(\$1,918,025)</u>	<u>(\$ 370,015)</u>	<u>\$ 281,178</u>
Other financing sources (uses):				
Proceeds from long-term debt	\$2,015,000	\$2,603,617	\$ 588,617	\$ -
Operating transfers out	(290,200)	(372,237)	(82,037)	(218,275)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$1,724,800</u>	<u>\$2,231,380</u>	<u>\$ 506,580</u>	<u>(\$ 218,275)</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>\$ 176,790</u>	<u>\$ 313,355</u>	<u>\$ 136,565</u>	<u>\$ 62,903</u>
Fund balance, July 1	<u>966,786</u>	<u>966,786</u>	<u>-</u>	<u>903,883</u>
FUND BALANCE, JUNE 30	<u><u>\$1,143,576</u></u>	<u><u>\$1,280,141</u></u>	<u><u>\$ 136,565</u></u>	<u><u>\$ 966,786</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEETS
June 30, 2006
With Totals for June 30, 2005

	Totals (Memorandum Only)	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 416,202	\$ 249,762
Due from other governmental units	128,637	127,448
Due from other funds	68,946	73,771
Due from component units	6,712	-
Long-term loans	<u>286,304</u>	<u>333,637</u>
	<u>\$ 906,801</u>	<u>\$ 784,618</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 15,602	\$ 5,418
Accrued wages and benefits	5,103	7,721
Due to other funds	140,619	158,840
Deferred revenue	<u>286,304</u>	<u>333,637</u>
TOTAL LIABILITIES	\$ 447,628	\$ 505,616
<u>FUND BALANCE (DEFICIT)</u>	<u>459,173</u>	<u>279,002</u>
	<u>\$ 906,801</u>	<u>\$ 784,618</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Revolving Fund</u>
\$176,829	\$ 77,695	\$ 161,678
52,955	75,682	-
7,583	-	61,363
-	6,712	-
-	-	286,304
<u>\$237,367</u>	<u>\$160,089</u>	<u>\$ 509,345</u>

\$ 6,751	\$ 8,851	\$ -
1,969	3,134	-
34,964	105,655	-
-	-	286,304
<u>\$ 43,684</u>	<u>\$117,640</u>	<u>\$ 286,304</u>
<u>193,683</u>	<u>42,449</u>	<u>223,041</u>
<u>\$237,367</u>	<u>\$160,089</u>	<u>\$ 509,345</u>

CITY OF HOUGHTON, MICHIGAN

SPECIAL REVENUE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

Year ended June 30, 2006
With Totals for Year Ended June 30, 2005

	Totals (Memorandum Only)	
	2006	2005
Revenues:		
Taxes	\$ 124,662	\$ 119,326
State grants	1,025,150	1,061,733
Interest and rents	15,643	7,800
Other revenue	50,444	6,446
TOTAL REVENUES	<u>\$1,215,899</u>	<u>\$1,195,305</u>
Expenditures:		
General government administration	\$ 69,576	\$ 34,703
Public works	966,152	1,334,979
Other expenditures	-	96,000
TOTAL EXPENDITURES	<u>\$1,035,728</u>	<u>\$1,465,682</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ 180,171</u>	<u>(\$ 270,377)</u>
Other financing sources (uses):		
Operating transfers from other funds	\$ 25,000	\$ 92,000
Operating transfers to other funds	(25,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ 92,000</u>
Fund balance (deficit), July 1	<u>\$ 180,171</u>	<u>(\$ 178,377)</u>
FUND BALANCE (DEFICIT), JUNE 30	<u>\$ 459,173</u>	<u>\$ 279,002</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>Major Street Fund</u>	<u>Local Street Fund</u>	<u>Revolving Fund</u>
\$ -	\$124,662	\$ -
765,491	259,659	-
4,654	2,690	8,299
-	1,371	49,073
<u>\$770,145</u>	<u>\$388,382</u>	<u>\$ 57,372</u>
\$ 37,008	\$ 31,407	\$ 1,161
626,209	339,943	-
-	-	-
<u>\$663,217</u>	<u>\$371,350</u>	<u>\$ 1,161</u>
<u>\$106,928</u>	<u>\$ 17,032</u>	<u>\$ 56,211</u>
\$ -	\$ 25,000	\$ -
(25,000)	-	-
<u>(\$ 25,000)</u>	<u>\$ 25,000</u>	<u>\$ -</u>
\$ 81,928	\$ 42,032	\$ 56,211
111,755	417	166,830
<u>\$193,683</u>	<u>\$ 42,449</u>	<u>\$ 223,041</u>

CITY OF HOUGHTON, MICHIGAN
MAJOR STREET AND TRUNKLINE MAINTENANCE FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$176,829	\$ 80,212
Due from other governmental units	52,955	66,912
Due from other funds	<u>7,583</u>	<u>12,408</u>
	<u>\$237,367</u>	<u>\$159,532</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 6,751	\$ 696
Accrued wages and benefits	1,969	5,304
Due to other funds	<u>34,964</u>	<u>41,777</u>
TOTAL LIABILITIES	\$ 43,684	\$ 47,777
<u>FUND BALANCE</u>	<u>193,683</u>	<u>111,755</u>
	<u>\$237,367</u>	<u>\$159,532</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 MAJOR STREET AND TRUNKLINE MAINTENANCE FUND
 STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL

Year ended June 30, 2006
 With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>			<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual</u>
Revenues:				
State grants	\$425,000	\$423,145	(\$ 1,855)	\$390,475
Interest and rents	<u>1,000</u>	<u>4,654</u>	<u>3,654</u>	<u>1,735</u>
TOTAL REVENUES	<u>\$426,000</u>	<u>\$427,799</u>	<u>\$ 1,799</u>	<u>\$392,210</u>
Expenditures:				
General government administration	\$ 26,285	\$ 37,008	(\$ 10,723)	\$ 25,767
Public works:				
Construction	18,070	-	18,070	55,285
Routine maintenance	41,875	45,995	(4,120)	40,353
Traffic services	3,450	4,715	(1,265)	2,306
Snow and ice control	271,500	221,058	50,442	295,474
Roadway inspection	23,400	24,020	(620)	22,922
Other expenditures	<u>65,000</u>	<u>-</u>	<u>65,000</u>	<u>288</u>
TOTAL EXPENDITURES	<u>\$449,580</u>	<u>\$332,796</u>	<u>\$ 116,784</u>	<u>\$442,395</u>
EXCESS OF REVENUES (EXPENDITURES) NOT INCLUDING STATE TRUNKLINE MAINTENANCE	<u>(\$ 23,580)</u>	<u>\$ 95,003</u>	<u>\$ 118,583</u>	<u>(\$ 50,185)</u>
State trunkline maintenance -				
Excess of revenues (expenditures)	<u>\$ 46,580</u>	<u>\$ 11,925</u>	<u>(\$ 34,655)</u>	<u>\$ 547</u>
Other financing sources (uses) -				
Operating transfers out	<u>(\$ 25,000)</u>	<u>(\$ 25,000)</u>	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>(\$ 2,000)</u>	<u>\$ 81,928</u>	<u>\$ 83,928</u>	<u>(\$ 49,638)</u>
Fund balance, July 1	<u>111,755</u>	<u>111,755</u>	<u>-</u>	<u>161,393</u>
FUND BALANCE, JUNE 30	<u>\$109,755</u>	<u>\$193,683</u>	<u>\$ 83,928</u>	<u>\$111,755</u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

LOCAL STREET FUND

BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 77,695	\$ 64,083
Due from component unit	6,712	-
Due from other governmental units	<u>75,682</u>	<u>60,536</u>
	<u>\$160,089</u>	<u>\$124,619</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 8,851	\$ 4,722
Accrued wages and benefits	3,134	2,417
Due to other funds	<u>105,655</u>	<u>117,063</u>
TOTAL LIABILITIES	\$117,640	\$124,202
<u>FUND BALANCE</u>	<u>42,449</u>	<u>417</u>
	<u>\$160,089</u>	<u>\$124,619</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

LOCAL STREET FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>		<u>Variance Favorable (Unfavorable)</u>	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
Taxes	\$108,000	\$124,662	\$ 16,662	\$119,326
State grants	240,000	259,659	19,659	248,038
Interest and rents	500	2,690	2,190	809
Other	<u>-</u>	<u>1,371</u>	<u>1,371</u>	<u>130</u>
TOTAL REVENUES	<u>\$348,500</u>	<u>\$388,382</u>	<u>\$ 39,882</u>	<u>\$368,303</u>
Expenditures:				
General government administration	\$ 25,950	\$ 31,407	(\$ 5,457)	\$ 27,029
Public works:				
Construction	7,100	-	7,100	90,119
Routine maintenance	63,100	81,342	(18,242)	80,741
Traffic services	7,450	12,943	(5,493)	5,544
Snow and ice control	235,000	245,658	(10,658)	299,877
Other expenditures	<u>40,000</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$378,600</u>	<u>\$371,350</u>	<u>\$ 7,250</u>	<u>\$503,310</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>(\$ 30,100)</u>	<u>\$ 17,032</u>	<u>\$ 47,132</u>	<u>(\$135,007)</u>
Other financing sources(uses) -				
Operating transfers in	<u>\$ 25,000</u>	<u>\$ 25,000</u>	<u>\$ -</u>	<u>\$ 92,000</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>(\$ 5,100)</u>	<u>\$ 42,032</u>	<u>\$ 47,132</u>	<u>(\$ 43,007)</u>
Fund balance, July 1	<u>417</u>	<u>417</u>	<u>-</u>	<u>43,424</u>
FUND BALANCE, JUNE 30	<u>(\$ 4,683)</u>	<u>\$ 42,449</u>	<u>\$ 47,132</u>	<u>\$ 417</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

REVOLVING FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 161,678	\$ 105,467
Due from other funds	61,363	61,363
Long-term loans	<u>286,304</u>	<u>333,637</u>
	<u>\$ 509,345</u>	<u>\$ 500,467</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Deferred revenue	\$ 286,304	\$ 333,637
<u>FUND BALANCE</u>	<u>223,041</u>	<u>166,830</u>
	<u>\$ 509,345</u>	<u>\$ 500,467</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

REVOLVING FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>			<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual</u>
Revenues:				
Interest and rents	\$ -	\$ 8,299	\$ 8,299	\$ 5,256
Other revenue - loan repayments	<u>43,461</u>	<u>49,073</u>	<u>5,612</u>	<u>6,316</u>
TOTAL REVENUES	<u>\$ 43,461</u>	<u>\$ 57,372</u>	<u>\$ 13,911</u>	<u>\$ 11,572</u>
Expenditures:				
General government administration	\$ 1,100	\$ 1,161	(\$ 61)	\$ 1,304
Loans and contingencies	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,000</u>
TOTAL EXPENDITURES	<u>\$ 1,100</u>	<u>\$ 1,161</u>	<u>(\$ 61)</u>	<u>\$ 97,304</u>
EXCESS OF REVENUES (EXPENDITURES)	\$ 42,361	\$ 56,211	\$ 13,850	(\$ 85,732)
Fund Balance, July 1	<u>166,830</u>	<u>166,830</u>	<u>-</u>	<u>252,562</u>
TOTAL FUND BALANCE, JUNE 30	<u>\$209,191</u>	<u>\$223,041</u>	<u>\$ 13,850</u>	<u>\$166,830</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
CAPITAL PROJECTS FUND - PUBLIC IMPROVEMENT FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 178,887	\$ 66,800
Grants receivable	81,984	56,518
Due from other funds	<u>72,245</u>	<u>79,974</u>
	<u>\$ 333,116</u>	<u>\$ 203,292</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 98,104	\$ 394
Accrued salaries and benefits	3,967	4,750
Due to other funds	61,363	68,791
Due to component units	<u>88,769</u>	<u>88,769</u>
TOTAL LIABILITIES	\$ 252,203	\$ 162,704
<u>FUND BALANCE</u>	<u>80,913</u>	<u>40,588</u>
	<u>\$ 333,116</u>	<u>\$ 203,292</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
CAPITAL PROJECTS FUND - PUBLIC IMPROVEMENT FUND
ANALYSES OF CHANGES IN FUND BALANCE

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Fund balance, July 1	\$ 40,588	\$ 50,632
Revenues for capital outlay:		
Grants	81,984	80,894
Miscellaneous	<u>5,956</u>	<u>-</u>
TOTAL AVAILABLE FOR CAPITAL OUTLAY	<u>\$ 128,528</u>	<u>\$ 131,526</u>
Expenditures for capital outlay:		
Springwood Project	\$ -	\$ 1,410
East Houghton Waterfront Docks	79,710	4,383
Historic Walking Tour	-	4,036
Public Works Facility	-	1,779
Nara Nature Park Phase II	1,778	72,492
Nara Nature Park Phase III	18,031	14,346
College Avenue Park	2,850	-
Downtown Signage	567	2,698
Mikkola Property	-	2,268
DEQ - Waterfront Plan	-	26,609
Townsend Drive Streetlighting	-	11,343
East Houghton Waterfront Pavilion	113,968	-
General Administration	<u>38,211</u>	<u>24,574</u>
TOTAL EXPENDITURES	<u>\$ 255,115</u>	<u>\$ 165,938</u>
	(\$ 126,587)	(\$ 34,412)
Other financing sources (uses) -		
Operating transfers from other funds	<u>207,500</u>	<u>75,000</u>
FUND BALANCE, JUNE 30	<u>\$ 80,913</u>	<u>\$ 40,588</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
DEBT SERVICE FUNDS
COMBINING BALANCE SHEETS
June 30, 2006
With Totals for June 30, 2005

	Totals (Memorandum Only)		1997 Building Authority Bonds	2005 Limited Tax General Obligation Bonds
	<u>2006</u>	<u>2005</u>		
<u>ASSETS</u>				
Cash	<u>\$ 4,915</u>	<u>\$ 115</u>	<u>\$ 115</u>	<u>\$ 4,800</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Equity	<u>4,915</u>	<u>115</u>	<u>115</u>	<u>4,800</u>
	<u>\$ 4,915</u>	<u>\$ 115</u>	<u>\$ 115</u>	<u>\$ 4,800</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

DEBT SERVICE FUNDS

COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND FUND EQUITY

Year ended June 30, 2006

With Totals for June 30, 2005

	<u>Totals</u> <u>(Memorandum Only)</u>		<u>1997</u> <u>Building</u> <u>Authority</u> <u>Bonds</u>	<u>2005</u> <u>Limited Tax</u> <u>General</u> <u>Obligation</u> <u>Bonds</u>
	<u>2006</u>	<u>2005</u>		
Revenues:				
Contributions from other funds	\$ 78,454	\$ 20,145	\$ 19,640	\$ 58,814
Contributions from component units	<u>91,209</u>	<u>89,870</u>	<u>91,209</u>	<u>-</u>
	<u>\$169,663</u>	<u>\$ 110,015</u>	<u>\$ 110,849</u>	<u>\$ 58,814</u>
Expenditures:				
Redemption of serial bonds	\$100,000	\$ 80,000	\$ 85,000	\$ 15,000
Interest on bonds	<u>64,863</u>	<u>30,015</u>	<u>25,849</u>	<u>39,014</u>
TOTAL EXPENDITURES	<u>\$164,863</u>	<u>\$ 110,015</u>	<u>\$ 110,849</u>	<u>\$ 54,014</u>
EXCESS OF REVENUES	\$ 4,800	\$ -	\$ -	\$ 4,800
Fund equity, July 1	<u>115</u>	<u>115</u>	<u>115</u>	<u>-</u>
FUND EQUITY, JUNE 30	<u><u>\$ 4,915</u></u>	<u><u>\$ 115</u></u>	<u><u>\$ 115</u></u>	<u><u>\$ 4,800</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

WATER SUPPLY FUND
BALANCE SHEETS

		June 30,	
		2006	2005
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash		\$ 5,840	\$ 15,338
Accounts receivable		91,741	88,783
TOTAL CURRENT ASSETS		\$ 97,581	\$ 104,121
<u>PROPERTY, PLANT, AND EQUIPMENT</u>			
Water distribution system		\$9,372,444	\$9,316,312
Less accumulated depreciation		3,473,100	3,286,275
TOTAL PROPERTY, PLANT, AND EQUIPMENT		\$5,899,344	\$6,030,037
<u>OTHER ASSETS</u>			
Restricted assets:			
Water Bond Reserve Account:			
Cash		\$ 1,226	\$ 1,596
Investments		28,903	29,522
Junior Lien Bond Reserve Account:			
Cash		16,880	22,791
Investments		233,176	212,945
Junior Lien Bond and Interest Redemption Account		45,047	61,023
1978 Water/Sewer Revenue Bonds - Debt Service Account		28	28
1980 Water/Sewer Revenue Bonds - Debt Service Account		194	194
1995 Water Project - Debt Service Account		119	119
1996 Water Completion - Debt Service Account		39	39
TOTAL OTHER ASSETS		\$ 325,612	\$ 328,257
		<u>\$6,322,537</u>	<u>\$6,462,415</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable		\$ 21,119	\$ 18,007
Accrued wages and benefits		1,282	8,296
Accrued interest expense		66,235	67,006
Due to other funds		122,040	127,894
Current maturities on long-term debt		66,000	53,000
TOTAL CURRENT LIABILITIES		\$ 276,676	\$ 274,203
<u>LONG-TERM DEBT</u>			
Bonds payable		\$4,452,000	\$4,505,000
Less current maturities		66,000	53,000
TOTAL LONG-TERM DEBT		\$4,386,000	\$4,452,000
TOTAL LIABILITIES		\$4,662,676	\$4,726,203
<u>FUND EQUITY</u>			
Contributed capital		\$ 358,380	\$ 371,815
Retained earnings		1,301,481	1,364,397
TOTAL FUND EQUITY		\$1,659,861	\$1,736,212
		<u>\$6,322,537</u>	<u>\$6,462,415</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
WATER SUPPLY FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Water sales	\$ 684,084	\$ 672,825
Repairs and new customer installations	13,098	12,700
Other revenue	<u>23,304</u>	<u>23,094</u>
TOTAL OPERATING REVENUES	<u>\$ 720,486</u>	<u>\$ 708,619</u>
Operating expenses:		
Source of water	\$ 187,938	\$ 175,074
Meter expenses	5,891	4,137
Customer installations	15,897	6,345
Maintenance of the water supply system, hydrants, and structure	117,551	187,968
Laboratory and office expense	38,998	39,247
Meter reading	16,104	12,859
Engineering and supervision	27,925	34,523
Other	<u>3,588</u>	<u>3,055</u>
	\$ 413,892	\$ 463,208
Depreciation expense	<u>186,825</u>	<u>184,631</u>
TOTAL OPERATING EXPENSES	<u>\$ 600,717</u>	<u>\$ 647,839</u>
NET OPERATING INCOME (LOSS)	<u>\$ 119,769</u>	<u>\$ 60,780</u>
Non-operating revenues - Interest	<u>\$ 6,181</u>	<u>\$ 10,818</u>
Non-operating expenses - Interest	<u>\$ 202,301</u>	<u>\$ 204,617</u>
NET INCOME (LOSS)	<u>(\$ 76,351)</u>	<u>(\$ 133,019)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
WATER SUPPLY FUND
ANALYSES OF CHANGES IN FUND EQUITY

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>CONTRIBUTED CAPITAL</u>		
Federal grants for construction:		
Balance, July 1	\$ 282,025	\$ 291,750
Less depreciation attributable to capital grants	<u>9,725</u>	<u>9,725</u>
Balance, June 30	<u>\$ 272,300</u>	<u>\$ 282,025</u>
State grants for construction:		
Balance, July 1	\$ 77,142	\$ 80,346
Less depreciation attributable to capital grants	<u>3,204</u>	<u>3,204</u>
Balance, June 30	<u>\$ 73,938</u>	<u>\$ 77,142</u>
Local grants for construction - MTU:		
Balance, July 1	\$ 4,162	\$ 4,328
Less depreciation attributable to capital grants	<u>166</u>	<u>166</u>
Balance, June 30	<u>\$ 3,996</u>	<u>\$ 4,162</u>
Capital contributed by other funds -		
Public Improvement Fund:		
Balance, July 1	\$ 8,486	\$ 8,826
Less depreciation attributable to capital grants	<u>340</u>	<u>340</u>
Balance, June 30	<u>\$ 8,146</u>	<u>\$ 8,486</u>
CONTRIBUTED CAPITAL, JUNE 30	<u>\$ 358,380</u>	<u>\$ 371,815</u>
<u>RETAINED EARNINGS</u>		
Balance, July 1	<u>\$1,364,397</u>	<u>\$1,483,981</u>
Add (subtract):		
Net income (loss) for the year	(\$ 76,351)	(\$ 133,019)
Depreciation attributable to capital grants	<u>13,435</u>	<u>13,435</u>
	<u>(\$ 62,916)</u>	<u>(\$ 119,584)</u>
RETAINED EARNINGS, JUNE 30	<u>\$1,301,481</u>	<u>\$1,364,397</u>
FUND EQUITY, JUNE 30	<u>\$1,659,861</u>	<u>\$1,736,212</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

WATER SUPPLY FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 717,528	\$ 685,204
Payments to suppliers	(233,286)	(282,530)
Payments to employees	(184,508)	(198,141)
Net cash provided (used) by operating activities	<u>\$ 299,734</u>	<u>\$ 204,533</u>
Cash flows from noncapital financing activities -		
Increase (decrease) in due to other funds		
and component units	(\$ 5,854)	\$ 86,408
Cash flows from capital and related financing		
activities:		
Acquisition of property, plant, and equipment	(\$ 56,132)	(\$ 28,800)
Issuance (reduction) of long-term debt	(53,000)	(39,000)
(Increase) decrease in restricted assets	2,645	(44,186)
Interest paid on long-term debt	(203,072)	(205,217)
Net cash provided (used) by capital and		
related financing activities	(\$ 309,559)	(\$ 317,203)
Cash flows from investing activities -		
Interest received	\$ 6,181	\$ 10,818
Net increase (decrease) in cash and cash equivalents	(\$ 9,498)	(\$ 15,444)
Cash - beginning of year	<u>15,338</u>	<u>30,782</u>
Cash - end of year	<u>\$ 5,840</u>	<u>\$ 15,338</u>
Reconciliation of operating income (loss) to net		
cash provided (used) by operating activities:		
Operating income (loss)	\$ 119,769	\$ 60,780
Adjustments to reconcile operating income to net		
cash provided (used) by operating activities -		
Depreciation expense	186,825	184,631
Changes in assets and liabilities:		
Receivables	(2,958)	(23,415)
Accounts and other payables	3,112	(17,270)
Accrued expenses	(7,014)	(193)
Net cash provided by operating activities	<u>\$ 299,734</u>	<u>\$ 204,533</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
SEWAGE DISPOSAL SYSTEM FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 334,550	\$ 250,048
Accounts receivable	191,162	194,847
Due from other funds	28,961	90,678
Due from other governmental units	-	2,101
TOTAL CURRENT ASSETS	<u>\$ 554,673</u>	<u>\$ 537,674</u>
<u>PROPERTY, PLANT, AND EQUIPMENT</u>		
Underground sewage collection system	\$5,509,531	\$5,472,326
Less accumulated depreciation	<u>3,354,096</u>	<u>3,252,856</u>
	\$2,155,435	\$2,219,470
Original investment in Portage Lake Water and Sewer Authority	<u>941,313</u>	<u>941,313</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>\$3,096,748</u>	<u>\$3,160,783</u>
<u>OTHER ASSETS</u>		
Restricted assets:		
1996 Sewer Bond Reserve Accounts:		
Cash	\$ 25,433	\$ 20,339
Investments	14,452	14,761
Restricted cash - 1996 Sewer Disposal Bonds	100	100
Debt Service account		
Restricted cash - 1997 Limited General Obligation	172	172
Bond Debt Service account		
TOTAL OTHER ASSETS	<u>\$ 40,157</u>	<u>\$ 35,372</u>
	<u>\$3,691,578</u>	<u>\$3,733,829</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 13,892	\$ 513
Accrued interest expense	9,239	9,812
Accrued wages and benefits	2,188	6,347
Due to other governmental units	1,223	-
Current maturities on long-term debt	<u>40,000</u>	<u>40,000</u>
TOTAL CURRENT LIABILITIES	<u>\$ 66,542</u>	<u>\$ 56,672</u>
<u>LONG-TERM DEBT</u>		
Bonds payable	\$ 550,000	\$ 590,000
Less current maturities	<u>40,000</u>	<u>40,000</u>
TOTAL LONG-TERM DEBT	<u>\$ 510,000</u>	<u>\$ 550,000</u>
TOTAL LIABILITIES	<u>\$ 576,542</u>	<u>\$ 606,672</u>
<u>FUND EQUITY</u>		
Contributed capital	\$1,155,161	\$1,205,699
Retained earnings	<u>1,959,875</u>	<u>1,921,458</u>
TOTAL FUND EQUITY	<u>\$3,115,036</u>	<u>\$3,127,157</u>
	<u>\$3,691,578</u>	<u>\$3,733,829</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
SEWAGE DISPOSAL SYSTEM FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Sewer charges	\$1,528,832	\$1,530,461
Repairs and new customer installations	7,750	11,050
Other revenue	<u>1,550</u>	<u>1,253</u>
TOTAL OPERATING REVENUES	<u>\$1,538,132</u>	<u>\$1,542,764</u>
Operating expenses:		
Customer installations	\$ 8,831	\$ 351
Maintenance of the sewage disposal system and structure	173,798	189,277
Laboratory and office expense	41,947	43,127
Engineering and supervision	31,890	33,699
City share of Portage Lake Water and Sewer Authority expense	1,167,455	1,284,095
Other	<u>3,050</u>	<u>3,519</u>
	\$1,426,971	\$1,554,068
Depreciation expense	<u>101,240</u>	<u>100,142</u>
TOTAL OPERATING EXPENSES	<u>\$1,528,211</u>	<u>\$1,654,210</u>
NET OPERATING INCOME (LOSS)	<u>\$ 9,921</u>	<u>(\$ 111,446)</u>
Non-operating revenues - Interest	<u>\$ 9,038</u>	<u>\$ 4,965</u>
Non-operating expenses - Interest	<u>\$ 31,080</u>	<u>\$ 33,006</u>
NET INCOME (LOSS)	<u>(\$ 12,121)</u>	<u>(\$ 139,487)</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 SEWAGE DISPOSAL SYSTEM FUND
 ANALYSES OF CHANGES IN FUND EQUITY

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>CONTRIBUTED CAPITAL</u>		
Federal grants for construction:		
Balance, July 1	\$1,205,699	\$1,256,237
Less depreciation attributable to capital grants	<u>50,538</u>	<u>50,538</u>
CONTRIBUTED CAPITAL, JUNE 30	<u>\$1,155,161</u>	<u>\$1,205,699</u>
<u>RETAINED EARNINGS</u>		
Balance, July 1	<u>\$1,921,458</u>	<u>\$2,010,407</u>
Add (subtract):		
Net income (loss) for the year	(\$ 12,121)	(\$ 139,487)
Depreciation attributable to capital grants	<u>50,538</u>	<u>50,538</u>
	<u>\$ 38,417</u>	<u>(\$ 88,949)</u>
RETAINED EARNINGS, JUNE 30	<u>\$1,959,875</u>	<u>\$1,921,458</u>
FUND EQUITY, JUNE 30	<u>\$3,115,036</u>	<u>\$3,127,157</u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
SEWAGE DISPOSAL SYSTEM FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$1,541,817	\$1,600,172
Payments to suppliers	(1,270,156)	(1,435,497)
Payments to employees	(144,271)	(142,450)
Other receipts (payments)	-	917
Net cash provided (used) by operating activities	<u>\$ 127,390</u>	<u>\$ 23,142</u>
Cash flows from noncapital financing activities:		
(Increase) decrease in due from other funds	\$ 61,717	\$ 47,434
Increase (decrease) in due to other funds and component units	-	(9,823)
Net cash flows from noncapital financing activities	<u>\$ 61,717</u>	<u>\$ 37,611</u>
Cash flows from capital and related financing activities:		
Acquisition of property, plant and equipment	(\$ 37,205)	(\$ 24,890)
Issuance (reduction) of long-term debt	(40,000)	(30,000)
(Increase) decrease in restricted assets	(4,785)	(4,091)
Interest paid on long-term debt	(31,653)	(33,429)
Net cash provided (used) by capital and related financing activities	<u>(\$ 113,643)</u>	<u>(\$ 92,410)</u>
Cash flows from investing activities -		
Interest received	<u>\$ 9,038</u>	<u>\$ 4,965</u>
Increase (decrease) in cash and cash equivalents	\$ 84,502	(\$ 26,692)
Cash - beginning of year	<u>250,048</u>	<u>276,740</u>
Cash - end of year	<u>\$ 334,550</u>	<u>\$ 250,048</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 9,921	(\$ 111,446)
Adjustments to reconcile operating income to net cash provided (used) by operating activities -		
Depreciation expense	101,240	100,142
Changes in assets and liabilities:		
Receivables	3,685	58,325
Accounts and other payables	13,379	(11,877)
Accrued expenses	(4,159)	312
Due from other governmental units	2,101	(2,101)
Due to other governmental units	<u>1,223</u>	<u>(10,213)</u>
Net cash provided by operating activities	<u>\$ 127,390</u>	<u>\$ 23,142</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

PARKING SYSTEM FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 4,240	\$ 5,152
Accounts receivable	<u>636</u>	<u>556</u>
TOTAL CURRENT ASSETS	<u>\$ 4,876</u>	<u>\$ 5,708</u>
<u>PROPERTY, PLANT, AND EQUIPMENT</u>		
Parking deck complex	\$4,418,758	\$4,418,758
Less accumulated depreciation	<u>2,299,040</u>	<u>2,190,496</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>\$2,119,718</u>	<u>\$2,228,262</u>
	<u>\$2,124,594</u>	<u>\$2,233,970</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 1,691	\$ 7,036
Accrued wages and benefits	801	3,083
Due to other funds	<u>238,835</u>	<u>190,642</u>
TOTAL CURRENT LIABILITIES	<u>\$ 241,327</u>	<u>\$ 200,761</u>
<u>FUND EQUITY</u>		
Contributed capital	\$1,302,691	\$1,375,132
Retained earnings (deficit)	<u>580,576</u>	<u>658,077</u>
TOTAL FUND EQUITY	<u>\$1,883,267</u>	<u>\$2,033,209</u>
	<u>\$2,124,594</u>	<u>\$2,233,970</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
PARKING SYSTEM FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Parking fees - Meters	\$ 9,581	\$ 10,914
Parking space permits	49,098	50,870
Parking fines	34,756	40,050
Towing fees	12,625	10,230
Other revenue	<u>400</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>\$106,460</u>	<u>\$112,064</u>
Operating expenses:		
Parking system maintenance	\$ 47,765	\$ 53,073
Parking law enforcement	70,356	59,841
Winter maintenance	56,578	86,654
Insurance	2,374	2,302
Miscellaneous	<u>800</u>	<u>1,172</u>
	\$177,873	\$203,042
Depreciation expense	<u>108,544</u>	<u>108,544</u>
TOTAL OPERATING EXPENSES	<u>\$286,417</u>	<u>\$311,586</u>
NET OPERATING INCOME (LOSS)	<u>(\$179,957)</u>	<u>(\$199,522)</u>
Non-operating revenues - Interest	\$ 15	\$ 10
INCOME (LOSS) BEFORE OPERATING TRANSFERS	<u>(\$179,942)</u>	<u>(\$199,512)</u>
Other financing sources (uses):		
Operating transfers from other funds	\$ -	\$ 40,000
Operating transfers from component unit	<u>30,000</u>	<u>30,000</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 30,000</u>	<u>\$70,000</u>
NET INCOME (LOSS)	<u>(\$149,942)</u>	<u>(\$129,512)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
PARKING SYSTEM FUND
ANALYSES OF CHANGES IN FUND EQUITY

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>CONTRIBUTED CAPITAL</u>		
Federal Grants - Balance, July 1	\$ 678,294	\$ 723,963
Less depreciation attributable to Federal grants	<u>45,669</u>	<u>45,669</u>
Balance, June 30	<u>\$ 632,625</u>	<u>\$ 678,294</u>
Michigan Small Cities Grant -		
Balance, July 1	\$ 223,425	\$ 233,402
Less depreciation attributable to State grants	<u>9,977</u>	<u>9,977</u>
Balance, June 30	<u>\$ 213,448</u>	<u>\$ 223,425</u>
Local contributions for parking deck		
construction - Balance, July 1	\$ 71,003	\$ 76,466
Less depreciation attributable to local contributions	<u>5,463</u>	<u>5,463</u>
Balance, June 30	<u>\$ 65,540</u>	<u>\$ 71,003</u>
City of Houghton General Fund contributions -		
Balance, July 1	\$ 38,770	\$ 40,710
Less depreciation attributable to City		
of Houghton General Fund grants	<u>1,940</u>	<u>1,940</u>
Balance, June 30	<u>\$ 36,830</u>	<u>\$ 38,770</u>
City of Houghton Downtown Development		
Authority contributions -		
Balance, July 1	\$ 363,640	\$ 373,032
Less depreciation attributable to City		
of Houghton Downtown Development		
Authority contributions	<u>9,392</u>	<u>9,392</u>
Balance, June 30	<u>\$ 354,248</u>	<u>\$ 363,640</u>
CONTRIBUTED CAPITAL, JUNE 30	<u>\$1,302,691</u>	<u>\$1,375,132</u>
<u>RETAINED EARNINGS</u>		
Balance, July 1	\$ 658,077	\$ 715,148
Add (subtract):		
Net income (loss) for the year	(\$ 149,942)	(\$ 129,512)
Depreciation attributable to capital grants	<u>72,441</u>	<u>72,441</u>
	(\$ 77,501)	(\$ 57,071)
RETAINED EARNINGS, JUNE 30	<u>\$ 580,576</u>	<u>\$ 658,077</u>
FUND EQUITY, JUNE 30	<u>\$1,883,267</u>	<u>\$2,033,209</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

PARKING SYSTEM FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$106,380	\$111,513
Payment to suppliers	(102,248)	(107,921)
Payments to employees	(83,252)	(89,294)
Net cash provided (used) by operating activities	(\$ 79,120)	(\$ 85,702)
Cash flows from noncapital financing activities:		
Transfers from other funds and component units	\$ 30,000	\$ 70,000
Increase (decrease) in due to other funds	48,193	13,118
Net cash provided (used) by noncapital financing activities	\$ 78,193	\$ 83,118
Cash flows from investment activities -		
Interest received	\$ 15	\$ 10
Net increase (decrease) in cash and cash equivalents	(\$ 912)	(\$ 2,574)
Cash - beginning of year	5,152	7,726
Cash - end of year	<u>\$ 4,240</u>	<u>\$ 5,152</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$179,957)	(\$199,522)
Adjustments to reconcile operating income to net cash provided (used) by operating activities -		
Depreciation expense	108,544	108,544
Changes in assets and liabilities:		
Receivables	(80)	(551)
Accounts and other payables	(5,345)	5,004
Accrued expenses	(2,282)	823
Net cash provided by operating activities	(\$ 79,120)	(\$ 85,702)

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

TRANSIT FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$ 8,785	\$ 15,323
Accounts receivable	3,541	5,614
Grant receivable	7,124	-
Due from Federal government	9,001	11,482
Due from other funds	-	19,000
TOTAL CURRENT ASSETS	<u>\$ 28,451</u>	<u>\$ 51,419</u>
<u>PROPERTY, PLANT, AND EQUIPMENT</u>		
Property and equipment	\$1,340,785	\$1,250,829
Less accumulated depreciation	<u>997,288</u>	<u>938,021</u>
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>\$ 343,497</u>	<u>\$ 312,808</u>
	<u>\$ 371,948</u>	<u>\$ 364,227</u>
<u>LIABILITIES AND FUND EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 5,462	\$ 3,602
Accrued wages and benefits	5,864	13,060
Due to State - State Operating Assistance	35,316	47,881
Due to other funds	<u>1,339</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>\$ 47,981</u>	<u>\$ 64,543</u>
<u>FUND EQUITY</u>		
Contributed capital - State	\$ 165,984	\$ 190,360
Contributed capital - Federal	157,496	108,577
Retained earnings	<u>487</u>	<u>747</u>
TOTAL FUND EQUITY	<u>\$ 323,967</u>	<u>\$ 299,684</u>
	<u>\$ 371,948</u>	<u>\$ 364,227</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 103,527	\$111,727
Operating expenses	<u>459,310</u>	<u>419,283</u>
OPERATING INCOME (LOSS)	(\$ 355,783)	(\$307,556)
Non-operating revenues	341,346	292,061
Non-operating expenses	<u>43,310</u>	<u>57,583</u>
NET INCOME (LOSS)	<u>(\$ 57,747)</u>	<u>(\$ 73,078)</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
ANALYSES OF CHANGES IN FUND EQUITY

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>CONTRIBUTED CAPITAL</u>		
State grants:		
Balance, July 1	\$190,360	\$246,356
Add grants received in current year:		
Contract 02-0046/Z3	818	1,641
Contract 02-0046/Z9	11,588	-
Contract 02-0046/Z10	4,000	-
Less depreciation attributable to State grants	<u>40,782</u>	<u>57,637</u>
Balance, June 30	<u>\$165,984</u>	<u>\$190,360</u>
Federal grants:		
Balance, July 1	\$108,577	\$117,582
Add grants received in current year:		
Contract 02-0046/Z3	3,273	6,566
Contract 02-0046/Z9	46,351	-
Contract 02-0046/Z10	16,000	-
Less depreciation attributable to Federal grants	<u>16,705</u>	<u>15,571</u>
Balance, June 30	<u>\$157,496</u>	<u>\$108,577</u>
TOTAL CONTRIBUTED CAPITAL, JUNE 30	<u>\$323,480</u>	<u>\$298,937</u>
<u>RETAINED EARNINGS</u>		
Balance, July 1	\$ 747	\$ 617
Net income (loss)	(57,747)	(73,078)
Add depreciation attributable to capital grants	<u>57,487</u>	<u>73,208</u>
RETAINED EARNINGS, JUNE 30	<u>\$ 487</u>	<u>\$ 747</u>
FUND EQUITY, JUNE 30	<u>\$323,967</u>	<u>\$299,684</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

TRANSIT FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$ 105,600	\$ 112,675
Payments to suppliers	(142,266)	(115,913)
Payments to employees	(263,113)	(240,908)
Net cash provided (used) by operating activities	(\$ 299,779)	(\$ 244,146)
Cash flows from noncapital financing activities:		
Transfers from other funds	\$ 72,580	\$ 69,000
(Increase) decrease in due from other funds	19,000	(19,000)
(Increase) decrease in due from other governmental units	2,481	(9,940)
Increase (decrease) in due to other funds	1,339	(10)
Increase (decrease) in due to other governmental units	(12,565)	22,340
Proceeds from grants	268,747	223,036
Specialized services grants paid	(43,207)	(57,493)
Interest expense and finance charges	(103)	(90)
Net cash provided (used) by noncapital financing activities	\$ 308,272	\$ 227,843
Cash flows from capital and related financing activities:		
Capital contributions	\$ 82,030	\$ 8,207
Acquisition of property, plant, and equipment	(89,956)	(8,207)
(Increase) decrease in grants receivable	(7,124)	1,653
Net cash provided (used) by capital and related financing activities	(\$ 15,050)	\$ 1,653
Cash flows from investing activities -		
Interest received	\$ 19	\$ 25
Net increase (decrease) in cash and cash equivalents	(\$ 6,538)	(\$ 14,625)
Cash - beginning of year	15,323	29,948
Cash - end of year	\$ 8,785	\$ 15,323
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	(\$ 355,783)	(\$ 307,556)
Adjustments to reconcile operating income to net cash provided (used) by operating activities -		
Depreciation expense	59,267	73,585
Changes in assets and liabilities:		
Receivables	2,073	948
Accounts and other payables	1,860	(11,483)
Accrued expenses	(7,196)	360
Net cash provided by operating activities	(\$ 299,779)	(\$ 244,146)

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

EQUIPMENT FUND
BALANCE SHEETS

		<u>June 30,</u>	
		<u>2006</u>	<u>2005</u>
<u>ASSETS</u>			
<u>CURRENT ASSETS</u>			
Cash		\$ 67,346	\$ 113,458
Due from other funds		469,412	422,810
Due from component units		<u>2,203</u>	<u>16,558</u>
TOTAL CURRENT ASSETS		<u>\$ 538,961</u>	<u>\$ 552,826</u>
<u>LAND, BUILDINGS, AND EQUIPMENT</u>			
Land and buildings		\$ 331,125	\$ 331,125
Equipment		<u>3,055,461</u>	<u>2,997,742</u>
		\$3,386,586	\$3,328,867
Less accumulated depreciation		<u>2,306,356</u>	<u>2,270,410</u>
TOTAL LAND, BUILDINGS, AND EQUIPMENT		<u>\$1,080,230</u>	<u>\$1,058,457</u>
		<u>\$1,619,191</u>	<u>\$1,611,283</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>CURRENT LIABILITIES</u>			
Accounts payable		\$ 17,436	\$ 47,062
Accrued expenses		2,889	4,559
Due to other funds		42,864	112,311
Current maturities on long-term debt		<u>14,474</u>	<u>13,336</u>
TOTAL CURRENT LIABILITIES		<u>\$ 77,663</u>	<u>\$ 177,268</u>
<u>LONG-TERM DEBT</u>			
Notes payable		\$ 100,597	\$ 113,913
Less current maturities		<u>14,474</u>	<u>13,336</u>
TOTAL LONG-TERM DEBT		<u>\$ 86,123</u>	<u>\$ 100,577</u>
TOTAL LIABILITIES		<u>\$ 163,786</u>	<u>\$ 277,845</u>
<u>RETAINED EARNINGS</u>		<u>\$1,455,405</u>	<u>\$1,333,438</u>
		<u>\$1,619,191</u>	<u>\$1,611,283</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EQUIPMENT FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$771,507	\$896,903
Other revenue	<u>5,268</u>	<u>-</u>
TOTAL OPERATING REVENUES	<u>\$776,775</u>	<u>\$896,903</u>
Operating expenses:		
Equipment operations, maintenance, and storage	\$409,098	\$419,430
Insurance on equipment and garage	30,648	25,848
Employee benefits	<u>33,908</u>	<u>39,657</u>
	\$473,654	\$484,935
Depreciation expense	<u>212,355</u>	<u>212,878</u>
TOTAL OPERATING EXPENSES	<u>\$686,009</u>	<u>\$697,813</u>
NET INCOME FROM OPERATIONS	<u>\$ 90,766</u>	<u>\$199,090</u>
Non-operating income:		
Interest	\$ 854	\$ 38
Gain on sale of equipment	<u>22,187</u>	<u>29,188</u>
	<u>\$ 23,041</u>	<u>\$ 29,226</u>
Non-operating expense -		
Interest	<u>\$ 5,543</u>	<u>\$ 5,514</u>
Other financing sources (uses):		
Operating transfers from other funds	\$ 13,703	\$ 14,130
Operating transfers to other funds	<u>-</u>	<u>(92,000)</u>
	<u>\$ 13,703</u>	<u>(\$ 77,870)</u>
NET INCOME (LOSS)	<u>\$121,967</u>	<u>\$144,932</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EQUIPMENT FUND
ANALYSES OF CHANGES IN FUND EQUITY

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>CONTRIBUTED CAPITAL</u>		
City of Houghton General Fund:		
Balance, July 1	\$ -	\$ 4,067
Less depreciation attributable to City of Houghton General Fund grants	-	4,067
TOTAL CONTRIBUTED CAPITAL, JUNE 30	<u>\$ -</u>	<u>\$ -</u>
<u>RETAINED EARNINGS</u>		
Balance, July 1	<u>\$1,333,438</u>	<u>\$1,184,439</u>
Add:		
Net income (loss)	\$ 121,967	\$ 144,932
Depreciation attributable to contributed capital	-	4,067
	<u>\$ 121,967</u>	<u>\$ 148,999</u>
TOTAL RETAINED EARNINGS, JUNE 30	<u>\$1,455,405</u>	<u>\$1,333,438</u>
FUND EQUITY, JUNE 30	<u>\$1,455,405</u>	<u>\$1,333,438</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

EQUIPMENT FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Receipts from customers	\$689,813	\$612,139
Payments to suppliers	(393,369)	(422,550)
Payments to employees	(79,443)	(92,099)
Other receipts (payments)	<u>5,268</u>	<u>-</u>
Net cash provided (used) by operating activities	<u>\$222,269</u>	<u>\$ 97,490</u>
Cash flows from noncapital financing activities:		
Transfers from other funds and component units	\$ 13,703	\$ 14,130
Transfers to other funds and component units	-	(92,000)
(Increase) decrease in due from other funds and component units	<u>(20,000)</u>	<u>92,000</u>
Net cash provided (used) by noncapital financing activities	<u>(\$ 6,297)</u>	<u>\$ 14,130</u>
Cash flows from capital and related financing activities:		
Proceeds from sale of equipment	\$ 49,806	\$ 54,801
Acquisition of property, plant and equipment	(293,742)	(263,569)
Issuance (reduction) of long-term debt	(13,316)	(13,187)
Interest paid on long-term debt	<u>(5,686)</u>	<u>(5,653)</u>
Net cash provided (used) by capital and related financing activities	<u>(\$262,938)</u>	<u>(\$227,608)</u>
Cash flows from investing activities -		
Interest received	<u>\$ 854</u>	<u>\$ 38</u>
Net increase (decrease) in cash and cash equivalents	<u>(\$ 46,112)</u>	<u>(\$115,950)</u>
Cash - beginning of year	<u>113,458</u>	<u>229,408</u>
Cash - end of year	<u>\$ 67,346</u>	<u>\$113,458</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 90,766	\$199,090
Adjustments to reconcile operating income to net cash provided (used) by operating activities -		
Depreciation expense	212,355	212,878
Changes in assets and liabilities:		
Accounts and other payables	2,369	(30,048)
Due from other funds and component units	(32,247)	(181,035)
Due to other funds	(49,447)	(103,729)
Accrued expenses	<u>(1,527)</u>	<u>334</u>
Net cash provided by operating activities	<u>\$222,269</u>	<u>\$ 97,490</u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EMPLOYEE RETIREMENT FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 88,788	\$ 73,353
Investments	4,645,179	4,403,594
Loans to participants	<u>131,709</u>	<u>151,916</u>
	<u>\$4,865,676</u>	<u>\$4,628,863</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>	\$ -	\$ -
<u>FUND BALANCE</u>	<u>4,865,676</u>	<u>4,628,863</u>
	<u>\$4,865,676</u>	<u>\$4,628,863</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EMPLOYEE RETIREMENT FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Employer contributions	\$187,950	\$177,104
Investment income	<u>232,543</u>	<u>170,518</u>
TOTAL OPERATING REVENUES	\$420,493	\$347,622
Operating expenses -		
Plan distributions	<u>349,799</u>	<u>174,592</u>
NET OPERATING INCOME (LOSS)	\$ 70,694	\$173,030
Net appreciation (depreciation) in fair value of investments	<u>166,119</u>	<u>160,215</u>
NET INCOME (LOSS)	<u>\$236,813</u>	<u>\$333,245</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EMPLOYEE RETIREMENT FUND
STATEMENTS OF CHANGES IN FUND BALANCE

	<u>Year ended</u>	<u>June 30,</u>
	<u>2006</u>	<u>2005</u>
<u>FUND BALANCE</u>		
Reserved, beginning of year	\$4,628,863	\$4,295,618
Net operating income (loss) for the year	<u>236,813</u>	<u>333,245</u>
FUND BALANCE RESERVED, JUNE 30	<u>\$4,865,676</u>	<u>\$4,628,863</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

EMPLOYEE BENEFIT FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$222,728	\$163,518
Due from other funds	-	2,412
Prepaid expense	<u>48,231</u>	<u>47,218</u>
	<u>\$270,959</u>	<u>\$213,148</u>
<u>LIABILITIES AND RETAINED EARNINGS</u>		
<u>LIABILITIES</u>		
Cash overdraft	\$ -	\$ 746
Accounts payable	-	3,339
Accrued expenses and payroll taxes	-	1,855
Accumulated employee sick leave	56,785	59,611
Accumulated employee vacation	<u>88,836</u>	<u>87,874</u>
TOTAL LIABILITIES	\$145,621	\$153,425
<u>RETAINED EARNINGS (DEFICIT)</u>	<u>125,338</u>	<u>59,723</u>
	<u>\$270,959</u>	<u>\$213,148</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EMPLOYEE BENEFIT FUND
STATEMENTS OF REVENUES AND EXPENSES

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Operating revenues:		
Charges for services	\$1,069,872	\$1,036,244
Other revenue	<u>12,710</u>	<u>4,109</u>
TOTAL OPERATING REVENUES	<u>\$1,082,582</u>	<u>\$1,040,353</u>
Operating expenses:		
Payroll taxes - Employer share	\$ 127,977	\$ 121,656
Hospitalization insurance	421,413	393,179
Sick pay	45,637	23,988
Vacation pay	101,469	85,169
Holiday pay	36,307	35,362
Longevity pay	11,725	10,050
Workers' compensation insurance	34,252	24,491
Unemployment insurance	1,787	10,754
Retirement contributions	187,950	177,104
Life insurance	31,269	31,346
Disability insurance	6,302	4,806
Other	<u>10,879</u>	<u>11,324</u>
TOTAL OPERATING EXPENSES	<u>\$1,016,967</u>	<u>\$ 929,229</u>
NET OPERATING INCOME (LOSS)	<u>\$ 65,615</u>	<u>\$ 111,124</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
EMPLOYEE BENEFIT FUND
ANALYSES OF CHANGES IN RETAINED EARNINGS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Retained earnings (deficit), July 1	\$ 59,723	(\$ 51,401)
Net operating income (loss) for the year	<u>65,615</u>	<u>111,124</u>
RETAINED EARNINGS (DEFICIT), JUNE 30	<u>\$125,338</u>	<u>\$ 59,723</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

EMPLOYEE BENEFIT FUND
STATEMENTS OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Receipts from customers	\$1,069,872	\$1,033,831
Payments to suppliers	(12,075)	(11,324)
Payments to employees	(1,010,551)	(944,207)
Other receipts	<u>12,710</u>	<u>4,109</u>
Cash flows provided (used) by operating activities	\$ 59,956	\$ 82,409
Cash, beginning of year	<u>162,772</u>	<u>80,363</u>
Cash, end of year	<u>\$ 222,728</u>	<u>\$ 162,772</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 65,615	\$ 111,124
Changes in assets and liabilities:		
Prepaid expense	(1,013)	(4,613)
Due from other funds	2,412	(2,412)
Accounts payable	(3,339)	(646)
Accrued expenses	(1,855)	1,537
Accumulated employee sick leave	(2,826)	(12,286)
Accumulated employee vacation	<u>962</u>	<u>(10,295)</u>
Net cash provided (used) by operating activities	<u>\$ 59,956</u>	<u>\$ 82,409</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

AGENCY FUND
TAX COLLECTION FUND

STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES
For the Year ended June 30, 2006

	Balance 07-01-05	Additions	Deductions	Balance 06-30-06
<u>ASSETS</u>				
Cash	<u>\$ 14,339</u>	<u>\$4,561,042</u>	<u>\$4,562,009</u>	<u>\$ 13,372</u>
<u>LIABILITIES</u>				
Due to (from) component unit:				
Downtown Development Authority	\$ 395	\$ 373,171	\$ 372,027	\$ 1,539
Tax Increment Finance Authority	(62,173)	588,884	526,711	-
Due to other governmental units	<u>76,117</u>	<u>3,598,987</u>	<u>3,663,271</u>	<u>11,833</u>
TOTAL LIABILITIES	<u>\$ 14,339</u>	<u>\$4,561,042</u>	<u>\$4,562,009</u>	<u>\$ 13,372</u>

The accompanying notes to financial statements
are an integral part of this statement.

GROUPS OF ACCOUNTS

CITY OF HOUGHTON, MICHIGAN
GENERAL FIXED ASSETS GROUP OF ACCOUNTS
STATEMENTS OF GENERAL FIXED ASSETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>GENERAL FIXED ASSETS</u>		
Land, buildings, and improvements	\$6,924,882	\$4,786,608
Improvements other than buildings	<u>2,688,459</u>	<u>2,680,053</u>
	<u>\$9,613,341</u>	<u>\$7,466,661</u>
<u>INVESTMENT IN GENERAL FIXED ASSETS</u>		
Capital Projects Funds:		
State grants	\$1,541,140	\$1,541,140
Federal grants	1,029,744	1,029,744
County grants	70,000	70,000
Local contributions	56,976	56,976
General Fund and other fund grants	1,947,317	1,947,317
General Fund grants	3,708,471	1,561,791
State grants	877,193	877,193
Gifts	<u>382,500</u>	<u>382,500</u>
	<u>\$9,613,341</u>	<u>\$7,466,661</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS
STATEMENTS OF GENERAL LONG-TERM DEBT

June 30,	
2006	2005

AMOUNT TO BE PROVIDED FOR THE
RETIREMENT OF GENERAL LONG-TERM DEBT

Amount to be provided for the payment of accrued compensated absences	\$ 184,275	\$ 180,669
Amounts to be provided for retirement of loans and bonds payable	3,230,189	751,333
	<u>\$3,414,464</u>	<u>\$ 932,002</u>

GENERAL LONG-TERM DEBT PAYABLE

Accrued compensated absences payable	\$ 184,275	\$ 180,669
1997 Building Authority and Building Authority Bonds	450,000	535,000
2005 General Obligation Limited Tax Bonds	2,000,000	-
Installment contract, including accrued interest	590,873	-
Michigan CDBG Economic Development Grant Loan	145,624	166,261
Promissory Note - retirement annuity	43,692	50,072
	<u>\$3,414,464</u>	<u>\$ 932,002</u>

General Obligation Water Supply and Sewage Disposal System Revenue Bonds of 1978, 1980, 1995 and 1997, aggregating \$4,452,000, which are not reflected above, are included in the balance sheet of the Water Supply Fund. Water Supply and Sewage System Bonds of 1996 totalling \$340,000, and Sewage System Limited Obligation Revenue Bonds of 1997 totalling \$210,000 which are not reflected above, are included in the balance sheet of the Sewage Disposal System Fund. All the above are scheduled in Note G to the financial statements at June 30, 2006.

Notes payable in the amount of \$100,597 not reflected above, are included in the balance sheets of the Equipment Fund, and are described in Note G to the financial statements at June 30, 2006.

The accompanying notes to financial statements are an integral part of this statement.

DISCRETELY PRESENTED COMPONENT UNITS

CITY OF HOUGHTON, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
A discretely presented component unit
COMBINED BALANCE SHEETS

June 30, 2006

		Totals (Memorandum Only)	
		<u>2006</u>	<u>2005</u>
<u>ASSETS</u>			
Cash		\$ 12,345	\$ 1,329
Taxes receivable		32,638	23,848
Due from primary government		1,539	395
Amount to be provided for retirement of long-term debt		<u>960,732</u>	<u>1,012,490</u>
		<u>\$1,007,254</u>	<u>\$1,038,062</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable		\$ 21,693	\$ 6,432
Deferred revenue		4,083	2,772
Due to primary government		-	5,209
Long-term debt		<u>960,732</u>	<u>1,012,490</u>
	TOTAL LIABILITIES	\$ 986,508	\$1,026,903
<u>FUND BALANCE (DEFICIT)</u>		<u>20,746</u>	<u>11,159</u>
		<u>\$1,007,254</u>	<u>\$1,038,062</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Long-Term Debt Group of Accounts</u>
\$ 11,651	\$ 694	\$ -
32,638	-	-
1,539	-	-
-	-	960,732
<u>\$ 45,828</u>	<u>\$ 694</u>	<u>\$ 960,732</u>
\$ 21,693	\$ -	\$ -
4,083	-	-
-	-	-
-	-	960,732
<u>\$ 25,776</u>	<u>\$ -</u>	<u>\$ 960,732</u>
20,052	694	-
<u>\$ 45,828</u>	<u>\$ 694</u>	<u>\$ 960,732</u>

CITY OF HOUGHTON, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
A discretely presented component unit
COMBINED STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year ended June 30, 2006

	Totals (Memorandum Only)	
	<u>2006</u>	<u>2005</u>
Revenues:		
Taxes	\$ 360,834	\$ 283,771
Interest and rents	2,683	446
Miscellaneous	8,166	-
TOTAL REVENUES	<u>\$ 371,683</u>	<u>\$ 284,217</u>
Expenditures:		
Administration	\$ 40,872	\$ 19,155
Capital outlay	85,505	121,585
Debt Service:		
Principal	58,615	10,000
Interest	55,895	5,035
TOTAL EXPENDITURES	<u>\$ 240,887</u>	<u>\$ 155,775</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$ 130,796</u>	<u>\$ 128,442</u>
Other financing sources (uses):		
Operating transfers to primary government	(\$ 121,209)	(\$ 119,870)
Operating transfers from other funds	114,510	15,035
Operating transfers to other funds	(114,510)	(15,035)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(\$ 121,209)</u>	<u>(\$ 119,870)</u>
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>\$ 9,587</u>	<u>\$ 8,572</u>
Fund balance (deficit), July 1	<u>11,159</u>	<u>2,587</u>
TOTAL FUND BALANCE (DEFICIT), JUNE 30	<u><u>\$ 20,746</u></u>	<u><u>\$ 11,159</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>General Fund</u>	<u>Debt Service Funds</u>
\$ 360,834	\$ -
2,683	-
<u>8,166</u>	<u>-</u>
\$ 371,683	\$ -
\$ 40,872	\$ -
85,505	-
-	58,615
<u>-</u>	<u>55,895</u>
\$ 126,377	\$ 114,510
\$ 245,306	(\$ 114,510)
(\$ 121,209)	\$ -
-	114,510
(114,510)	<u>-</u>
(\$ 235,719)	\$ 114,510
\$ 9,587	\$ -
10,465	<u>694</u>
<u>\$ 20,052</u>	<u>\$ 694</u>

CITY OF HOUGHTON, MICHIGAN
 DOWNTOWN DEVELOPMENT AUTHORITY
 A discretely presented component unit
 GENERAL FUND
 BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 11,651	\$ 635
Taxes receivable	32,638	23,848
Due from primary government	1,539	395
	<u>\$ 45,828</u>	<u>\$ 24,878</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 21,693	\$ 6,432
Due to primary government	-	5,209
Deferred revenue	4,083	2,772
TOTAL LIABILITIES	\$ 25,776	\$ 14,413
<u>FUND BALANCE (DEFICIT)</u>	<u>20,052</u>	<u>10,465</u>
	<u>\$ 45,828</u>	<u>\$ 24,878</u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY
A discretely presented component unit

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>		<u>2005</u>	
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual</u>
Revenues:				
Taxes	\$381,000	\$360,834	(\$ 20,166)	\$283,771
Interest and rents	500	2,683	2,183	446
Miscellaneous	<u>8,200</u>	<u>8,166</u>	<u>(34)</u>	<u>-</u>
TOTAL REVENUES	<u>\$389,700</u>	<u>\$371,683</u>	<u>(\$ 18,017)</u>	<u>\$284,217</u>
Expenditures:				
General government administration	\$ 45,600	\$ 40,872	\$ 4,728	\$ 19,155
Capital outlay	<u>64,700</u>	<u>85,505</u>	<u>(20,805)</u>	<u>121,585</u>
TOTAL EXPENDITURES	<u>\$110,300</u>	<u>\$126,377</u>	<u>(\$ 16,077)</u>	<u>\$140,740</u>
EXCESS OF REVENUES (EXPENDITURES)	<u>\$279,400</u>	<u>\$245,306</u>	<u>(\$ 34,094)</u>	<u>\$143,477</u>
Other financing sources (uses):				
Operating transfers to primary government	(\$121,207)	(\$121,209)	(\$ 2)	(\$119,870)
Operating transfers to other funds	<u>(114,510)</u>	<u>(114,510)</u>	<u>-</u>	<u>(15,035)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(\$235,717)</u>	<u>(\$235,719)</u>	<u>(\$ 2)</u>	<u>(\$134,905)</u>
EXCESS OF REVENUES AND OTHER SOURCES EXPENDITURES AND OTHER USES)	\$ 43,683	\$ 9,587	(\$ 34,096)	\$ 8,572
Fund balance (deficit), July 1	<u>10,465</u>	<u>10,465</u>	<u>-</u>	<u>1,893</u>
TOTAL FUND BALANCE (DEFICIT), JUNE 30	<u>\$ 54,148</u>	<u>\$ 20,052</u>	<u>(\$ 34,096)</u>	<u>\$ 10,465</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
A discretely presented component unit
DEBT SERVICE FUNDS
COMBINING BALANCE SHEETS
June 30, 2006
With Totals for June 30, 2005

	Totals (Memorandum Only)		1996 Building Authority Bonds	1994 DDA Limited Tax General Obligation Bonds
	<u>2006</u>	<u>2005</u>	<u></u>	<u></u>
<u>ASSETS</u>				
Cash	\$ <u>694</u>	\$ <u>694</u>	\$ <u>613</u>	\$ <u>81</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Equity	<u>694</u>	<u>694</u>	<u>613</u>	<u>81</u>
	<u>\$ 694</u>	<u>\$ 694</u>	<u>\$ 613</u>	<u>\$ 81</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 DOWNTOWN DEVELOPMENT AUTHORITY
 A discretely presented component unit
 DEBT SERVICE FUNDS
 COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND FUND EQUITY
 Year ended June 30, 2006
 With Totals for June 30, 2005

	Totals (Memorandum Only)		1996 Building Authority Bonds	1994 DDA Limited Tax General Obligation Bonds
	<u>2006</u>	<u>2005</u>		
Revenues -				
Contributions from other funds	\$ <u>114,510</u>	\$ <u>15,035</u>	\$ <u>14,510</u>	\$ <u>100,000</u>
Expenditures:				
Redemption of serial bonds	\$ <u>58,615</u>	\$ <u>10,000</u>	\$ <u>10,000</u>	\$ <u>48,615</u>
Interest on bonds	<u>55,895</u>	<u>5,035</u>	<u>4,510</u>	<u>51,385</u>
TOTAL EXPENDITURES	\$ <u>114,510</u>	\$ <u>15,035</u>	\$ <u>14,510</u>	\$ <u>100,000</u>
EXCESS OF REVENUES	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Fund equity, July 1	<u>694</u>	<u>694</u>	<u>613</u>	<u>81</u>
FUND EQUITY, JUNE 30	\$ <u><u>694</u></u>	\$ <u><u>694</u></u>	\$ <u><u>613</u></u>	\$ <u><u>81</u></u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
A discretely presented component unit
STATEMENTS OF GENERAL LONG-TERM DEBT

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>AMOUNT TO BE PROVIDED FOR THE</u> <u>RETIREMENT OF GENERAL LONG-TERM DEBT</u>		
Amounts to be provided for the retirement of long-term debt	<u>\$ 960,732</u>	<u>\$1,012,490</u>
<u>GENERAL LONG-TERM DEBT PAYABLE</u>		
Limited tax development bonds, including accrued interest	\$ 885,732	\$ 927,490
1996 Building Authority Bonds	<u>75,000</u>	<u>85,000</u>
	<u>\$ 960,732</u>	<u>\$1,012,490</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
COMBINED BALANCE SHEETS
June 30, 2006

		Totals (Memorandum Only)	
		2006	2005
<u>ASSETS</u>			
Cash		\$ 27,361	\$ 434,515
Taxes receivable		20,073	20,465
Due from primary government		88,769	88,769
Amount to be provided for retirement of long-term debt		<u>1,440,483</u>	<u>1,584,527</u>
		<u>\$1,576,686</u>	<u>\$2,128,276</u>
<u>LIABILITIES AND FUND BALANCE</u>			
<u>LIABILITIES</u>			
Accounts payable		\$ 6,813	\$ 47,634
Accrued wages and benefits		309	15,071
Due to primary government		8,915	77,522
Deferred revenue		4,013	3,059
Long-term debt		<u>1,440,483</u>	<u>1,584,527</u>
	TOTAL LIABILITIES	\$1,460,533	\$1,727,813
<u>FUND BALANCE</u>		<u>116,153</u>	<u>400,463</u>
		<u>\$1,576,686</u>	<u>\$2,128,276</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Long-Term Debt Group of Accounts</u>
\$ 26,827	\$ 534	\$ -
20,073	-	-
88,769	-	-
-	-	<u>1,440,483</u>
<u>\$135,669</u>	<u>\$ 534</u>	<u>\$1,440,483</u>

\$ 6,813	\$ -	\$ -
309	-	-
8,915	-	-
4,013	-	-
-	-	<u>1,440,483</u>
\$ 20,050	\$ -	\$1,440,483
<u>115,619</u>	<u>534</u>	<u>-</u>
<u>\$135,669</u>	<u>\$ 534</u>	<u>\$1,440,483</u>

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2006

		Totals	
		(Memorandum Only)	
		<u>2006</u>	<u>2005</u>
Revenues:			
Taxes		\$ 524,559	\$ 560,874
Interest and rents		<u>17,044</u>	<u>9,503</u>
	TOTAL REVENUES	<u>\$ 541,603</u>	<u>\$ 570,377</u>
Expenditures:			
General government administration		\$ 91,504	\$ 87,057
Capital outlay		<u>506,876</u>	<u>280,550</u>
Debt Service:			
Principal		144,044	156,141
Interest		<u>83,189</u>	<u>92,923</u>
Other		<u>300</u>	<u>320</u>
	TOTAL EXPENDITURES	<u>\$ 825,913</u>	<u>\$ 616,991</u>
	EXCESS OF REVENUES (EXPENDITURES)	<u>(\$ 284,310)</u>	<u>(\$ 46,614)</u>
Other financing sources (uses):			
Operating transfers from other funds		\$ 227,533	\$ 249,301
Operating transfers to other funds		<u>(227,533)</u>	<u>(249,301)</u>
	TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>
	EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	<u>(\$ 284,310)</u>	<u>(\$ 46,614)</u>
Fund balance (deficit), July 1		<u>400,463</u>	<u>447,077</u>
	TOTAL FUND BALANCE (DEFICIT), JUNE 30	<u>\$ 116,153</u>	<u>\$ 400,463</u>

The accompanying notes to financial statements
are an integral part of this statement.

<u>General Fund</u>	<u>Debt Service Funds</u>
\$ 524,559	\$ -
<u>17,044</u>	<u>-</u>
\$ 541,603	\$ -
 \$ 91,504	 \$ -
506,876	-
-	144,044
-	83,189
<u>-</u>	<u>300</u>
\$ 598,380	\$ 227,533
(\$ 56,777)	(\$ 227,533)
 \$ -	 \$ 227,533
(227,533)	<u>-</u>
(\$ 227,533)	\$ 227,533
 (\$ 284,310)	 \$ -
<u>399,929</u>	<u>534</u>
<u>\$ 115,619</u>	<u>\$ 534</u>

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
GENERAL FUND
BALANCE SHEETS

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 26,827	\$433,981
Taxes receivable	20,073	20,465
Due from primary government	<u>88,769</u>	<u>88,769</u>
	<u>\$135,669</u>	<u>\$543,215</u>
<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 6,813	\$ 47,634
Accrued wages and benefits	309	15,071
Due to primary government	8,915	77,522
Deferred revenue	<u>4,013</u>	<u>3,059</u>
TOTAL LIABILITIES	\$ 20,050	\$143,286
	<u>115,619</u>	<u>399,929</u>
<u>FUND BALANCE</u>	<u>\$135,669</u>	<u>\$543,215</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>			<u>2005</u>
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual</u>
Revenues:				
Taxes	\$ 527,641	\$ 524,559	(\$ 3,082)	\$ 560,874
Interest and rents	<u>16,000</u>	<u>17,044</u>	<u>1,044</u>	<u>9,503</u>
TOTAL REVENUES	<u>\$ 543,641</u>	<u>\$ 541,603</u>	<u>(\$ 2,038)</u>	<u>\$ 570,377</u>
Expenditures:				
General government administration	\$ 79,000	\$ 91,504	(\$ 12,504)	\$ 87,057
Capital outlay	<u>224,502</u>	<u>506,876</u>	<u>(282,374)</u>	<u>280,550</u>
TOTAL EXPENDITURES	<u>\$ 303,502</u>	<u>\$ 598,380</u>	<u>(\$ 294,878)</u>	<u>\$ 367,607</u>
EXCESS OF REVENUES (EXPENDITURES)	\$ 240,139	(\$ 56,777)	(\$ 296,916)	\$ 202,770
Other financing sources (uses) - Operating transfers to other funds	(<u>235,498</u>)	(<u>227,533</u>)	<u>7,965</u>	(<u>249,301</u>)
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	\$ 4,641	(\$ 284,310)	(\$ 288,951)	(\$ 46,531)
Fund balance (deficit), July1	<u>399,929</u>	<u>399,929</u>	<u>-</u>	<u>446,460</u>
TOTAL FUND BALANCE (DEFICIT), JUNE 30	<u>\$ 404,570</u>	<u>\$ 115,619</u>	<u>(\$ 288,951)</u>	<u>\$ 399,929</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
DEBT SERVICE FUNDS
COMBINING BALANCE SHEETS
Year ended June 30, 2006
With totals for June 30, 2005

	Totals (Memorandum Only)		Tax Increment Revenue Bonds	
	<u>2006</u>	<u>2005</u>	1993 Wal-mart Project	1995 TIFA Projects
<u>ASSETS</u>				
Cash	\$ <u>534</u>	\$ <u>534</u>	\$ <u>64</u>	\$ <u>349</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities	\$ -	\$ -	\$ -	\$ -
Fund Equity	<u>534</u>	<u>534</u>	<u>64</u>	<u>349</u>
	<u>\$ 534</u>	<u>\$ 534</u>	<u>\$ 64</u>	<u>\$ 349</u>

The accompanying notes to financial statements
are an integral part of this statement.

1998	1999
LTD	Bluffs
Refunding	Bond
<u>Bonds</u>	<u>Debt</u>

\$ 58	\$ 63
-------	-------

\$ -	\$ -
58	63

\$ 58	\$ 63
-------	-------

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
DEBT SERVICE FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES, AND FUND EQUITY
Year ended June 30, 2006
With Totals for June 30, 2005

	Totals (Memorandum Only)		Tax Increment Revenue Bonds	
	2006	2005	1993 Wal-mart Project	1995 TIFA Projects
Revenues -				
Contributions from other funds	\$227,533	\$249,301	\$ 59,088	\$ 72,205
Expenditures:				
Redemption of serial bonds	\$144,044	\$156,141	\$ 49,044	\$ 70,000
Interest on bonds	83,189	92,923	10,044	2,205
Paying agent fees and miscellaneous	300	320	-	-
TOTAL EXPENDITURES	\$227,533	\$249,384	\$ 59,088	\$ 72,205
EXCESS OF REVENUES	\$ -	(\$ 83)	\$ -	\$ -
Fund equity, July 1	534	617	64	349
FUND EQUITY, JUNE 30	\$ 534	\$ 534	\$ 64	\$ 349

The accompanying notes to financial statements are an integral part of this statement.

<u>1998</u> <u>LTD</u> <u>Refunding</u> <u>Bonds</u>	<u>1999</u> <u>Bluffs</u> <u>Bond</u> <u>Debt</u>
<u>\$ 54,960</u>	<u>\$ 41,280</u>
\$ 10,000	\$ 15,000
44,960	25,980
<u>-</u>	<u>300</u>
<u>\$ 54,960</u>	<u>\$ 41,280</u>
\$ -	\$ -
<u>58</u>	<u>63</u>
<u><u>\$ 58</u></u>	<u><u>\$ 63</u></u>

CITY OF HOUGHTON, MICHIGAN
TAX INCREMENT FINANCE AUTHORITY
A discretely presented component unit
STATEMENTS OF GENERAL LONG-TERM DEBT

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>AMOUNT TO BE PROVIDED FOR THE</u>		
<u>RETIREMENT OF GENERAL LONG-TERM DEBT</u>		
Amounts to be provided for the retirement of bonds payable	<u>\$1,440,483</u>	<u>\$1,584,527</u>
<u>GENERAL LONG-TERM DEBT PAYABLE</u>		
Walmart Store Project Bonds	\$ 105,483	\$ 154,527
1995 TIFA Projects Bonds	-	70,000
1998 Limited Tax Development Refunding Bonds	900,000	910,000
1999 Bluffs Project Bonds	435,000	450,000
	<u>\$1,440,483</u>	<u>\$1,584,527</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
BROWNFIELD REDEVELOPMENT AUTHORITY
A discretely presented component unit
COMBINED BALANCE SHEETS
June 30, 2006

	<u>Totals</u> <u>(Memorandum Only)</u>		<u>General</u>	<u>Long-Term</u>
	<u>2006</u>	<u>2005</u>	<u>Fund</u>	<u>Debt</u>
				<u>Group of</u>
				<u>Accounts</u>
<u>ASSETS</u>				
Cash	\$ 101	\$ -	\$ 101	\$ -
Due from primary government	15,383	15,483	15,383	-
Due from other governmental units	300,512	339,748	300,512	-
Amount to be provided for retirement of long-term debt	<u>300,512</u>	<u>339,748</u>	<u>-</u>	<u>300,512</u>
	<u>\$616,508</u>	<u>\$694,979</u>	<u>\$315,996</u>	<u>\$ 300,512</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Deferred revenue	\$300,512	\$339,748	\$300,512	\$ -
Long-term debt	<u>300,512</u>	<u>339,748</u>	<u>-</u>	<u>300,512</u>
TOTAL LIABILITIES	\$601,024	\$679,496	\$300,512	\$ 300,512
<u>FUND BALANCE</u>	<u>15,484</u>	<u>15,483</u>	<u>15,484</u>	<u>-</u>
	<u>\$616,508</u>	<u>\$694,979</u>	<u>\$315,996</u>	<u>\$ 300,512</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 BROWNFIELD REDEVELOPMENT AUTHORITY
 A discretely presented component unit
 GENERAL FUND
 BALANCE SHEETS

		<u>June 30,</u>	
		<u>2006</u>	<u>2005</u>
	<u>ASSETS</u>		
Cash		\$ 101	\$ -
Due from primary government		15,383	15,483
Due from other governmental units		<u>300,512</u>	<u>339,748</u>
		<u>\$315,996</u>	<u>\$355,231</u>
	<u>LIABILITIES AND FUND BALANCE</u>		
<u>LIABILITIES</u>			
Deferred revenue		\$300,512	\$339,748
<u>FUND BALANCE</u>		<u>15,484</u>	<u>15,483</u>
		<u>\$315,996</u>	<u>355,231</u>

The accompanying notes to financial statements
 are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

BROWNFIELD REDEVELOPMENT AUTHORITY
A discretely presented component unit

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

Year ended June 30, 2006
With Actual Amounts for Year Ended June 30, 2005

	<u>2006</u>		<u>Variance Favorable (Unfavorable)</u>	<u>2005</u>
	<u>Budget</u>	<u>Actual</u>		<u>Actual</u>
Revenues:				
County	\$ -	\$ 46,880	\$ 46,880	\$ 46,880
Interest	-	1	1	-
TOTAL REVENUES	<u>\$ -</u>	<u>\$ 46,881</u>	<u>\$ 46,881</u>	<u>\$ 46,880</u>
Expenditures:				
Principal	\$ -	\$ 39,236	(\$ 39,236)	\$ 38,372
Interest	-	7,644	(7,644)	8,508
TOTAL EXPENDITURES	<u>\$ -</u>	<u>\$ 46,880</u>	<u>(\$ 46,880)</u>	<u>\$ 46,880</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES	\$ -	\$ 1	\$ 1	\$ -
Fund balance, July 1	<u>15,483</u>	<u>15,483</u>	<u>-</u>	<u>15,483</u>
TOTAL FUND BALANCE, JUNE 30	<u>\$ 15,483</u>	<u>\$ 15,484</u>	<u>\$ 1</u>	<u>\$ 15,483</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 BROWNFIELD REDEVELOPMENT AUTHORITY
 A discretely presented component unit
 STATEMENTS OF GENERAL LONG-TERM DEBT

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
<u>AMOUNT TO BE PROVIDED FOR THE</u> <u>RETIREMENT OF GENERAL LONG-TERM DEBT</u>		
Amount to be provided for the retirement of bonds payable	<u>\$300,512</u>	<u>\$339,748</u>
<u>GENERAL LONG-TERM DEBT PAYABLE</u>		
Limited obligation revenue bonds	<u>\$300,512</u>	<u>\$339,748</u>

The accompanying notes to financial statements
 are an integral part of this statement.

OTHER FINANCIAL INFORMATION

CITY OF HOUGHTON, MICHIGAN

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND FUND BALANCE

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
REVENUES:		
Taxes:		
Real property taxes	\$ 933,529	\$ 827,267
Personal property taxes	48,944	45,375
Payments in lieu of taxes	6,218	5,619
Previously written off	321	31,232
Administration fees and interest	<u>31,878</u>	<u>34,067</u>
TOTAL TAXES	\$ <u>1,020,890</u>	\$ <u>943,560</u>
Licenses and permits	\$ <u>1,090</u>	\$ <u>1,275</u>
State grants:		
Sales and use tax	\$ 826,209	\$ 836,937
Liquor licenses	7,284	7,709
Fire protection	23,096	11,479
Other	<u>19,094</u>	<u>4,330</u>
TOTAL STATE GRANTS	\$ <u>875,683</u>	\$ <u>860,455</u>
Charges for service:		
Accident reports	\$ 2,020	\$ 1,992
Lighting - MTU	3,411	3,411
Dee Stadium	117,052	112,186
Sanitation	336,585	403,362
Charges to users	<u>244,803</u>	<u>252,974</u>
TOTAL CHARGES FOR SERVICES	\$ <u>703,871</u>	\$ <u>773,925</u>
Interest and rents -		
Interest income	\$ <u>35,921</u>	\$ <u>54,149</u>
Other revenue:		
Sale of assets	\$ 84,931	\$ 11,397
Fines and forfeits	10,024	11,370
Contribution from private source	6,400	30,000
Miscellaneous	<u>17,334</u>	<u>13,986</u>
TOTAL OTHER REVENUE	\$ <u>118,689</u>	\$ <u>66,753</u>
TOTAL REVENUES	\$ <u>2,756,144</u>	\$ <u>2,700,117</u>
EXPENDITURES:		
General government administration:		
Legislative	\$ 21,484	\$ 16,865
City manager	75,410	77,492
Elections	5,474	10,439
Assessor	33,728	33,299
Planning and professional services	116,281	36,675
Clerk	106,403	107,800
Treasurer	44,862	50,875
Accounting and auditing	16,000	20,000
Building and grounds	218,611	199,314
Community promotion	59,710	98,939
Capital outlay	<u>181,991</u>	<u>35,408</u>
TOTAL GENERAL GOVERNMENT ADMINISTRATION	\$ <u>879,954</u>	\$ <u>687,106</u>

CITY OF HOUGHTON, MICHIGAN

GENERAL FUND
STATEMENTS OF REVENUES, EXPENDITURES, AND FUND BALANCE (CONTINUED)

	Year ended June 30,	
	2006	2005
Public safety:		
Police	\$ 616,704	\$ 618,167
Fire	141,048	131,881
Capital outlay	-	1,242
TOTAL PUBLIC SAFETY	\$ 757,752	\$ 751,290
Public works:		
Department of public works	\$ 5,491	\$ 6,893
Building inspection	75,317	69,339
Sidewalks and curbs	23,045	29,224
Street lighting	143,209	133,142
Tree trimming	9,322	2,595
Refuse collections	349,995	392,655
TOTAL PUBLIC WORKS	\$ 606,379	\$ 633,848
Recreation and parks:		
Beach	\$ 46,845	\$ 48,923
Dee Stadium	126,014	108,451
Parks	107,855	70,932
Capital outlay	2,014,699	-
TOTAL RECREATION AND PARKS	\$ 2,295,413	\$ 228,306
Debt service:		
Principal	\$ 20,637	\$ 20,078
Interest	4,749	5,308
TOTAL DEBT SERVICE	\$ 25,386	\$ 25,386
Other expenditures:		
City beautification	\$ 2,674	\$ 5,450
Insurance, bonds, and fringes	74,480	61,679
Finance charge	187	542
Capital outlay	-	16,921
Miscellaneous	31,944	8,411
TOTAL OTHER EXPENDITURES	\$ 109,285	\$ 93,003
TOTAL EXPENDITURES	\$ 4,674,169	\$ 2,418,939
EXCESS REVENUES OVER EXPENDITURES	(\$ 1,918,025)	\$ 281,178
Other financing sources (uses):		
Proceeds from long-term debt	\$ 2,603,617	\$ -
Operating transfers out	(372,237)	(218,275)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 2,231,380	(\$ 218,275)
EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES)	\$ 313,355	\$ 62,903
Fund Balance, July 1	966,786	903,883
FUND BALANCE, JUNE 30	\$ 1,280,141	\$ 966,786

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
MAJOR STREET AND TRUNKLINE MAINTENANCE FUND
SCHEDULES OF EXPENDITURES AND REIMBURSEMENTS
FOR STATE TRUNKLINE MAINTENANCE

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Expenditures:		
Traffic signals	\$ 9,386	\$ 6,599
Surface maintenance	10,812	6,797
Sweeping and flushing	1,089	10,284
Culvert/underdrain	17,499	9,400
Snow and ice control	290,526	318,916
Grass/Weed control	715	-
Construction	-	68,068
Other	<u>394</u>	<u>2,609</u>
	\$330,421	\$422,673
Reimbursements		
Michigan Department of Highways and Transportation	<u>342,346</u>	<u>423,220</u>
	<u>\$ 11,925</u>	<u>\$ 547</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
SCHEDULE OF OPERATING REVENUES

	7-1-05 to <u>9-30-05</u>	10-1-05 to <u>6-30-06</u>	<u>Total</u>
Fare box	\$ 17,780	\$ 46,132	\$ 63,912
Special contract fares	10,645	28,146	38,791
Other revenue - RTAP reimbursements	<u>824</u>	<u>-</u>	<u>824</u>
TOTAL OPERATING REVENUES	<u>\$ 29,249</u>	<u>\$ 74,278</u>	<u>\$103,527</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
SCHEDULE OF OPERATING EXPENSES
Year ended June 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
Labor:				
Operators' salaries and wages	\$ 120,431	\$ -	\$ -	\$120,431
Other salaries and wages	-	31,350	23,523	54,873
Fringe benefits	31,261	30,024	19,328	80,613
Services:				
Contracted services	163	382	-	545
Printing and publishing	-	-	992	992
Audit	-	-	2,000	2,000
Materials and supplies consumed:				
Fuel and lubricants	39,165	-	-	39,165
Repairs and maintenance	-	34,359	-	34,359
Other materials and supplies	10,933	12,373	-	23,306
Utilities	1,642	11,706	-	13,348
Casualty and liability cost - Premiums for public liability and property damage insurance	-	24,685	-	24,685
Miscellaneous expenses	2,680	411	2,635	5,726
Depreciation	<u>32,974</u>	<u>2,956</u>	<u>23,337</u>	<u>59,267</u>
TOTAL OPERATING EXPENSES	<u>\$ 239,249</u>	<u>\$ 148,246</u>	<u>\$ 71,815</u>	<u>\$459,310</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES
Year ended June 30, 2006

Non-operating revenues:	
Operating transfers in - General Fund	\$ 72,580
State of Michigan operating grants:	
Local Bus Operating Assistance - Act 51	156,454
FY 2002 adjustment	5,190
Specialized Services -	
Contract 02-0046	43,207
Federal Operating Grant - U.S. DOT Operating	
Grant - Section 5311 -	
Contract 02-0046	63,896
Interest income	<u>19</u>
TOTAL NON-OPERATING REVENUES	<u>\$341,346</u>
Non-operating expenses:	
Specialized Services Grants -	
Contract 02-0046	\$ 43,207
Finance charges	<u>103</u>
TOTAL NON-OPERATING EXPENSES	<u>\$ 43,310</u>

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

TRANSIT FUND
MILEAGE SCHEDULE

Year ended June 30, 2006

	<u>Public Transportation Mileage</u>
<u>LINE HAUL AND DEMAND RESPONSE</u>	
First Quarter	31,269
Second Quarter	33,938
Third Quarter	29,647
Fourth Quarter	<u>26,300</u>
	<u>121,154</u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage. However, the methodology used does not differentiate between Line Haul and Demand Response Mileage.

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
TRANSIT FUND
 SCHEDULE OF NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS
 Year ended June 30, 2006

	<u>Federal Section 5311*</u>	
	<u>02-0046-Z12</u>	<u>02-0046-Z14</u>
	<u>7-1-05 to 9-30-05</u>	<u>10-1-05 to 6-30-06</u>
Expenses:		
Labor		
Fringe benefits	\$ 35,882	\$139,421
Services	16,729	63,884
Materials and supplies	270	3,267
Utilities	17,198	79,632
Casualty and liability costs	1,302	12,047
Miscellaneous expenses	6,171	18,514
Depreciation	2,194	3,531
	<u>14,817</u>	<u>44,450</u>
TOTAL OPERATING EXPENSES	<u>\$ 94,563</u>	<u>\$364,746</u>
Less ineligible expenses:		
RTAP reimbursements		
Audit	\$ 824	\$ -
Depreciation	-	2,000
	<u>14,817</u>	<u>44,450</u>
TOTAL INELIGIBLE EXPENSES AND REIMBURSEMENTS	<u>\$ 15,641</u>	<u>\$ 46,450</u>
NET ELIGIBLE EXPENSES	<u>\$ 78,922</u>	<u>\$318,296</u>
Maximum Section 5311 reimbursement:		
12.40%		
	<u>\$ 9,786</u>	
17.00%		
		<u>\$ 54,110</u>

State Statutory Operating Assistance - the lower of its:
Reimbursement Amount:

39.9234% of eligible expenses for non-urbanized areas
 (.399234 x \$78,932)
 39.2546% of eligible expenses for non-urbanized areas
 (.392546 x \$318,389)

The percentages are calculated based on budgeted eligible operating expenses.
 Therefore, the percentages will be recalculated after total eligible operating
 expenses are determined based on the preliminary reconciliation and the audited
 close-out. There is a fixed amount of state funds available statewide and the
 percentages change based on the statewide eligible expenses.

Statutory Cap:

Non-urbanized areas and urbanized areas under 100,000 population can
 receive up to 60% of eligible operating expenses.

Mandatory Floor:

An agency must receive, as a minimum, the amount received for eligible
 operating expenses in FY 1997, contingent upon the local share requirements
 set forth in Act 51, as amended.

*Federal Section 5311 expenses are only those expenses incurred in providing
 service to non-urbanized areas.

The accompanying notes to financial statements
 are an integral part of this statement.

Local Bus Operating Assistance

7-1-05 to 9-30-05 10-1-05 to 6-30-06

\$ 35,882	\$139,421
16,729	63,884
270	3,267
17,198	79,632
1,302	12,047
6,171	18,514
2,194	3,531
<u>14,817</u>	<u>44,450</u>
<u>\$ 94,563</u>	<u>\$364,746</u>
 \$ 824	 \$ -
-	2,000
<u>- 14,817</u>	<u>44,450</u>
<u>\$ 15,641</u>	<u>\$ 46,450</u>
<u>\$ 78,922</u>	<u>\$318,296</u>

\$ 31,508

\$124,946

JOSEPH M. DAAVETILA, P.C.
Certified Public Accountant
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931
December 21, 2006

City Council
City of Houghton
Michigan

Management Letter

In connection with our audit of the financial statements of the CITY OF HOUGHTON, MICHIGAN for the year ended June 30, 2005, the following comments and recommendations concerning accounting procedures and controls in effect in the City are presented for your consideration.

The following items are not a matter of internal accounting control, except as noted. They generally relate to the application of generally accepted accounting principles in the preparation of financial statements.

1. In previous years the City had accumulated significant interfund balances. The City has made some progress in paying off these interfund loans. We recommend that management continue to take the steps necessary to eliminate these balances. Ideally, all interfund balances should be disposed of on a current basis and all contributions should be budgeted. This comment has been included in previous years' reports.
2. During the year ended June 30, 2006, the City incurred expenditures in two funds which were in excess of the amounts appropriated. This is in violation of Public Act 621 of 1978. As purchase orders are approved, care should be taken to ensure that the amounts expended do not exceed the amount budgeted for that category. This comment has been included in previous years' reports.
3. When the budgets are prepared, revenues need to equal expenditures. If budgeted expenditures exceed budgeted revenues there needs to be an adequate fund equity to absorb the shortfall. During the year ended June 30, 2006, the Local Street Fund had budgeted expenditures in excess of budgeted revenues in the amount of \$5,100. The Major Street Fund did not have enough fund balance to cover this shortfall.
4. As is indicated in Note E to the financial statements there are substantial outstanding long-term loans from the Revolving Loan Fund to U.P. Hotel Group, Inc.. These loans were made from funds from an Urban Development Action Grant. The U.P. Hotel Group, Inc., is currently behind in their payments on both of these loans. We recommend that management pursue every avenue available to them to collect the payments which are past due and to collect all scheduled loan payments in a timely manner.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the June 30, 2006 financial statements, and this report does not affect our report on the financial statements dated December 21, 2006.

This report is intended solely for the use of management and should not be used for any other purpose. The comments contained herein are submitted as constructive suggestions to assist the City in strengthening controls and procedures, and are not intended to reflect upon the honesty or integrity of any employee.

We would be happy to discuss any of the comments in this report, and would like to thank the officials and employees of the City for the courtesy and excellent shown us during our audit.



Certified Public Accountant